

**RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES**

**Financial Statements and Supplementary Information
For the Years Ended December 31, 2011 and 2010
With Report of Independent Auditors**

**RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES**
December 31, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS

The Retirement Allowance Committee
Retirement Plan for Chicago Transit Authority Employees

We have audited the accompanying statements of plan net assets of the Retirement Plan for Chicago Transit Authority Employees (the Plan) as of December 31, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included 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 Plan'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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of December 31, 2011 and 2010, and the changes in its net assets for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary schedule of investment and administrative expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Mitchell & Titus, LLP

September 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This management's discussion and analysis of the Retirement Plan for Chicago Transit Authority Employees (the Plan) provides an overview and analysis of the financial statements of the Plan, including highlights and comparisons for the years ended December 31, 2011, 2010, and 2009. For more detailed information regarding the Plan's financial activities, review the Plan's financial statements, including the notes and supplementary schedules.

Overview of the Financial Statements

The basic financial statements are prepared in accordance with accounting principles generally accepted in the U.S. as established by the Governmental Accounting Standards Board (GASB) and are described below:

- *The Statement of Plan Net Assets* presents the Plan's assets and liabilities and the resultant net assets held in trust for plan benefits at the end of the year. The statement reflects the Plan's investments at fair value as well as receivables and liabilities.
- *The Statement of Changes in Plan Net Assets* presents the additions and deductions to the Plan during the current year. It reflects the investment income and net realized and unrealized gains or losses during the year, along with members' contributions and employer's contributions; and then benefit payments, refunds, and administrative expenses.
- *The Notes to Financial Statements* provide additional information for a better understanding of the data provided in the financial statements. They explain the purpose of the Plan, significant accounting policies, investment details and related risks, and other relevant information.

The required supplementary information consists of a Schedule of Funding Progress, a Schedule of Employer and Employee Contributions for the Plan, as well as the related notes to discuss actuarial assumptions and methods. Such schedules provide historical trend information to aid in the analysis of the funded status of the Plan for the past six years and the progress being made in accumulating sufficient assets to pay benefits when due.

- *The Schedule of Funding Progress* contains actuarial valuations of the status of the Plan on an ongoing as well as historical basis. Actuarial liabilities in excess of actuarial valuation of assets indicate that insufficient assets have been accumulated to fund future benefits of current members and retirees.
- *The Schedule of Employer and Employee Contributions* contains historical trend information of employer and employee contributions. It shows the value of total annual contributions the employer must pay as determined under the parameters in GASB Statement No. 25 for the Plan and the related percentage the employer has contributed to meet its requirement.
- *The Notes to the Required Supplementary Information* provides background information and the actuarial method and assumptions used to aid in the understanding of the required supplementary schedules.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Overview of the Financial Statements *(continued)*

The additional schedule provided consists of the *Schedule of Investment and Administrative Expenses*, which reflects the costs to manage the defined benefit pension plan.

Financial Highlights

- The net assets held in trust for Plan benefits totaled approximately \$1.66 billion at December 31, 2011, compared to \$1.79 billion at December 31, 2010 and \$1.72 billion at December 31, 2009. The net assets are available for payment of members' pensions.
- The addition to net assets for the 2011 Plan year was \$94.5 million, which comprised of contribution revenue of \$107.5 million, decreased by a net investment loss of \$13.0 million. The addition to net assets for the 2010 Plan year was \$298.8 million, which comprised of contribution revenue of \$101.5 million, increased by a net investment gain of \$197.3 million. For the 2009 Plan year, the addition to net assets was \$189.7 million and consisted of contribution revenue of \$76.4 million, increased by a net investment gain of \$113.3 million.
- Benefit payments to retirees increased by \$5.5 million in 2011 and \$3.6 million in 2010 and decreased by \$50.9 million in 2009. The decrease in 2009 was due to the retirees' healthcare costs being transferred to the Retiree Health Care Plan in 2009. However, there were runoff claim costs of approximately \$53,000 in 2010. Refunds of member contributions increased slightly during 2011, 2010 and 2009.
- The funded ratio of the Plan for pension benefits was 59.2% at December 31, 2011, compared to 70.1% at December 31, 2010 and 74.8% at December 31, 2009. The decrease in the funded ratio at December 31, 2011 was due to a loss in demographic experience and a loss from a change in actuarial asset valuation method from the five-year smoothed market method to the market value of asset method, which recognizes gains or losses between actual and expected investment return immediately. The decrease in funded ratio at December 31, 2010 was primarily due to the amortization of deferred asset losses into the actuarial value of assets and the decrease in the valuation interest rate assumption to 8.50% from 8.75%. The decrease in funded ratio at December 31, 2009 was primarily due to changes in the membership, actuarial assumptions, payroll, and investment return.
- The Plan implemented the provisions of GASB Statement No. 50, which requires that information about the funded status of each pension plan, as of the most recent actuarial valuation, be disclosed in the notes to the financial statements. Additionally, GASB Statement No. 50 requires disclosure of information about actuarial methods and assumptions used in valuations on which reported information about the annual required contributions (ARC) and the funded status and funding progress are based. The required schedules of funding progress immediately following the notes to the financial statements present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Plan Net Assets

A condensed schedule of the Plan's net assets is presented below:

Plan Net Assets					
(in millions)					
As of December 31, 2011, 2010 and 2009					
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011-2010</u>	
				<u>Change</u>	<u>Change</u>
	<u>\$</u>			<u>\$</u>	<u>%</u>
Receivables	\$ 12.0	\$ 13.8	\$ 11.0	\$ (1.8)	(13.0)%
Brokers–unsettled trades	10.7	3.0	1.4	7.7	256.7
Investments, at fair value	1,657.1	1,789.2	1,710.6	(132.1)	(7.4)
Invested securities lending collateral	<u>234.7</u>	<u>244.9</u>	<u>245.3</u>	<u>(10.2)</u>	<u>(4.2)</u>
Total assets	<u>1,914.5</u>	<u>2,050.9</u>	<u>1,968.3</u>	<u>(136.4)</u>	
Brokers–unsettled trades	12.1	6.4	2.9	5.7	89.1
Securities lending payable	234.7	244.9	245.5	(10.2)	(4.2)
Accounts payable and accrued expenses	<u>5.5</u>	<u>4.9</u>	<u>3.6</u>	<u>0.6</u>	12.2
Total liabilities	<u>252.3</u>	<u>256.2</u>	<u>252.0</u>	<u>(3.9)</u>	
Net Plan assets	<u>\$ 1,662.2</u>	<u>\$ 1,794.7</u>	<u>\$ 1,716.3</u>	<u>\$(132.5)</u>	(7.4)%

Plan net assets decreased by \$132.5 million, or 7.4%, at December 31, 2011 compared to the prior year, primarily due to unfavorable market conditions, which decreased investments at year end by \$132.1 million. Receivables, including brokers-unsettled trades, increased by \$5.9 million at December 31, 2011, mainly due to year-end pending sales of securities. Liabilities decreased by \$3.9 million at December 31, 2011 due to decreases in securities lending payable more than offset the increases in liability for year-end pending purchases of securities and accounts payable.

Plan net assets increased by \$78.4 million, or 4.6%, at December 31, 2010 compared to the prior year, primarily due to favorable market conditions, which increased investments at year end by \$78.6 million. Receivables increased by \$4.4 million at December 31, 2010, mainly due to year-end pending sales of securities and contributions receivable. Liabilities increased by \$4.2 million at December 31, 2010 due to increases in liability for year-end pending purchases of securities and accounts payable and accrued expenses.

Plan net assets decreased by \$27.2 million, or 1.6%, at December 31, 2009 compared to the prior year, primarily due to more sales in investments, which decreased investments at year end by \$46 million. Receivables decreased by \$4.0 million at December 31, 2009, mainly due to year-end pending sales of securities and contributions receivable. Liabilities increased by \$159.5 million at December 31, 2009 due to increases in liability for cash collateral related to securities lending and offset by decreases in accounts payable and accrued expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Changes in Plan Net Assets

The following schedule presents a condensed comparison of various changes in the Plan's net assets:

Changes in Plan Net Assets					
(in millions)					
Years Ended December 31, 2011, 2010, and 2009					
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011-2010</u>	
				<u>Change</u>	
	<u>\$</u>			<u>\$</u>	<u>%</u>
Additions					
Member contributions	\$ 47.2	\$ 45.3	\$ 35.0	\$ 1.9	4.2%
Employer contributions	60.3	56.2	41.4	4.1	7.3
Net investment gains (losses) and investment income	<u>(13.0)</u>	<u>197.3</u>	<u>113.3</u>	<u>(210.3)</u>	(106.6)
Total additions	<u>94.5</u>	<u>298.8</u>	<u>189.7</u>	<u>(204.3)</u>	
Deductions					
Annuity and disability benefits	221.7	216.2	212.6	5.5	2.5
Refunds of contributions	2.9	2.2	2.1	0.7	31.8
Administrative expenses	<u>2.4</u>	<u>2.0</u>	<u>2.2</u>	<u>0.4</u>	20.0
Total deductions	<u>227.0</u>	<u>220.4</u>	<u>216.9</u>	<u>6.6</u>	
Net (decrease) increase	<u>\$ (132.5)</u>	<u>\$ 78.4</u>	<u>\$ (27.2)</u>	<u>\$ (210.9)</u>	(269.0)%

Total additions of \$94.5 million in 2011 were lower than the amounts in 2010, primarily due to unfavorable market conditions on investments during 2011. Total additions of \$298.8 million in 2010 were higher than the amounts in 2009, primarily due to an increase in the contribution rate and a higher return on investments. Active employees' rate increased to 8.345% from 6%. Also, the employer contribution rate increased to 10.69% from 6%, net of pension bond debt service credit. Total additions of \$189.7 million in 2009 were lower than the amounts in 2008, primarily due to employer contributions through one-time bond proceeds in 2008, which did not occur in 2009.

Deductions increased by \$6.6 million in 2011 and \$3.5 million in 2010; and decreased by \$50.8 million in 2009. The increases in 2011 and 2010 were mainly due to an increase in annuity and disability benefits. The decrease in deductions in 2009 was largely due to the transfer of retiree healthcare liabilities to the CTA Retiree Health Care Plan in 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Plan Membership

The following table presents the changes in Plan membership as of December 31, 2011, 2010 and 2009:

**Changes in Plan Membership
As of December 31, 2011, 2010 and 2009**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011-2010</u>	
				<u>Change</u>	<u>%</u>
Retirees and beneficiaries					
receiving benefits	9,418	9,310	9,275	108	1.2%
Active employees	8,751	8,932	9,865	(181)	(2.0)
Terminated (inactive members)					
employees entitled to benefits					
or refunds of contributions	84	60	51	24	40.0
Total	<u>18,253</u>	<u>18,302</u>	<u>19,191</u>	<u>(49)</u>	

Funding Status

The actuarial value of assets for pension benefits under GASB 25, as of December 31, 2011, was \$1.7 billion and the actuarial liability was \$2.8 billion. The actuarial value of assets decreased by \$247.8 million and the actuarial accrued liability increased by \$84.0 million in 2011 over 2010 levels. The funded status of the Plan decreased to 59.2% as of December 31, 2011 from 70.1% as of December 31, 2010. The decrease was due to actuarial losses in demographic experience and the change in actuarial asset valuation to the market value method.

The actuarial value of assets for pension benefits under GASB 25, as of December 31, 2010, was \$1.9 billion and the actuarial liability was \$2.7 billion. The actuarial value of assets decreased by \$26.9 million and the actuarial accrued liability increased by \$135.7 million in 2010 over 2009 levels. The funded status of the Plan decreased to 70.1% as of December 31, 2010 from 74.8% as of December 31, 2009. The decrease was attributed to the amortization of deferred asset losses into the actuarial value of assets and the decrease in the valuation interest rate assumption to 8.50% from 8.75% per year.

The actuarial value of assets for pension benefits under GASB 25, as of December 31, 2009, was \$1.9 billion and the actuarial liability was \$2.6 billion. The actuarial value of assets decreased by \$59.1 million and the actuarial accrued liability decreased by \$43.9 million in 2009 over 2008 levels. The unfunded liability increased by \$15.2 million as of December 31, 2009 as a result of expected increases in normal cost and interest in unfunded liability of \$130.7 million, reduced by actuarial gain of \$32.8 million and a change in actuarial assumptions of \$82.7 million, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Funding Status *(continued)*

Changes to the Plan from Public Act 095-0708 effectively removed the liability for retiree healthcare benefits from the Pension Plan, effective January 1, 2009. As of December 31, 2010, there were no Plan assets available for retiree healthcare benefits in the Retirement Plan as the retiree healthcare liability was transferred to the CTA Retiree Health Care Plan in 2009. There were no legislative or administrative changes that affected the Plan's funding during the years ended December 31, 2011 and 2010.

Investment Activities

The Plan's net assets held for investment were \$1.66 billion at year-end 2011, a decrease of \$132.5 million over 2010, with a total plan rate of return of 3.5% for the year. Domestic investment managers returned (0.3)% while foreign investment managers returned (12.0)% for the year ended December 31, 2011. The Plan's net assets held for investment were \$1.79 billion at year-end 2010, an increase of \$78.4 million over 2009, with a total plan rate of return of 12.6% for the year. Domestic investment managers returned 19.7% while foreign investment managers returned 11.6% for the year ended December 31, 2010. The Plan's net assets held for investment were \$1.72 billion at year-end 2009, a decrease of \$27.2 million over 2008, with a total plan rate of return of 8.6% for the year. Domestic investment managers returned 30.8% while foreign investment managers returned 20.5% for the year ended December 31, 2009. The fair value of the Plan's assets was impacted by the volatility of the financial markets and changes in the economy. Therefore, these rates of returns will fluctuate in future years. During 2011, the Plan's investment asset allocation stayed within its target asset allocation ranges, with 46% of assets invested in domestic equity, 5% invested in international equity, 10% invested in real estate, 6% invested in private equity, 11% invested in hedge funds, and 22% invested in fixed income, including 11% in stable value.

Investment Returns Years Ended December 31, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Plan	3.5%	12.6%	8.6%
Benchmark portfolio	1.5	11.9	19.5
Domestic equities	(0.3)%	19.7%	30.8%
Benchmark (Wilshire 5000)	3.7	16.6	29.4
International equities	(12.0)%	11.6%	20.5%
Benchmark (MSCI EAFE)	(12.1)	7.8	31.8
Fixed income	7.2%	6.8%	6.3%
Benchmark (Barclays Aggregate)	7.8	6.5	5.9
Real estate	12.2%	15.5%	(20.0)%
Benchmark (CPI+5.5% over rolling five-year periods)	8.5	7.0	7.5

Effects of Economic Factors

Funding

The Plan's funding objective is to meet long-term benefit obligations by accumulating sufficient assets through contributions and investment income. The Plan is well funded when it has sufficient assets to meet all expected future obligations to participants.

The funded ratio of the Plan was 59.2% at December 31, 2011, compared to 70.1% at December 31, 2010 and 74.8% at December 31, 2009. The decrease in funded ratio from December 31, 2010 to December 31, 2011 was mainly due to losses from a combination of two principal factors: demographic experience and change in actuarial asset valuation method. The decrease in funded ratio from December 31, 2009 to December 31, 2010, primarily was due to the amortization of deferred asset losses into the actuarial value of assets and the decrease in the valuation interest rate assumption to 8.50% from 8.75% per year.

The Plan's funded ratio decreased to 74.8% at December 31, 2009 from 75.8% at December 31, 2008, primarily due to changes in the membership, actuarial assumptions, payroll, and investment return. The steady decline in the funded ratio from 1981 to 2007 has been due to insufficient employer and employee contributions, several early retirement programs, increased benefits, and dramatic health care cost increases that were paid out of the Retirement Plan prior to 2009.

Effective January 1, 2007, the retiree healthcare assets were marked to the fair market value of the retiree healthcare account and are disclosed under GASB No. 43. Previously, retiree healthcare assets disclosed under GASB No. 25 were allocated in proportion to the actuarial accrued liabilities. During 2009, the retiree healthcare liability was transferred from the Retirement Plan to the Retiree Health Care Plan.

Public Act 095-0708 changed the structure and funding of the Retirement Plan significantly. The Act requires that the funding and liability for retiree healthcare be removed from the Retirement Plan. The Act also changed the eligibility for retirement benefits for CTA employees hired after January 17, 2008 and created a separate Healthcare Trust to administer the benefits for retirees. Further, the Act gave the CTA the authority to issue debt in order to fund the Retirement Plan and the Retiree Healthcare Trust, created in May 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Contact Information

This financial report is designed to provide the employer, plan participants, and others with a general overview of the Plan's finances and to show accountability for the monies received. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. John V. Kallianis
Executive Director
Retirement Plan for
Chicago Transit Authority Employees
10 South LaSalle Street, Suite 1100
Chicago, Illinois 60603

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Statements of Plan Net Assets
As of December 31, 2011 and 2010

(Amounts in thousands)

	<u>2011</u>	<u>2010</u>
ASSETS		
Total investments, at fair value	\$ 1,657,097	\$ 1,789,227
Invested securities lending cash collateral	<u>234,653</u>	<u>244,925</u>
<i>Receivables</i>		
Employer contributions	5,019	5,704
Employee contributions	3,924	4,453
Securities sold, but not received	10,706	3,028
Accrued interest and dividends	2,153	2,301
Other	<u>881</u>	<u>1,358</u>
	<u>22,683</u>	<u>16,844</u>
Total assets	<u>1,914,433</u>	<u>2,050,996</u>
LIABILITIES		
Payable upon return of securities loaned	234,653	244,925
Accounts payable	5,475	4,052
Other payables	-	896
Securities purchased, but not paid	<u>12,109</u>	<u>6,381</u>
Total liabilities	<u>252,237</u>	<u>256,254</u>
Net assets held in trust for plan benefits	<u>\$ 1,662,196</u>	<u>\$ 1,794,742</u>

The accompanying notes are an integral part of these financial statements.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Statements of Changes in Plan Net Assets
For the Years Ended December 31, 2011 and 2010

	2011	2010
ADDITIONS		
Net investment (loss) income	\$ (13,018)	\$ 197,317
Employer contributions	60,318	56,216
Employee contributions	47,169	45,265
Other income	4	-
Total additions	94,473	298,798
DEDUCTIONS		
<i>Benefit payments and contribution refunds</i>		
Benefit payments	221,732	216,217
Contribution refunds, including interest	2,879	2,128
Administrative expenses	2,408	2,028
Total deductions	227,019	220,373
Net (decrease) increase	(132,546)	78,425
Net assets held in trust for plan benefits		
Beginning of year	1,794,742	1,716,317
End of year	\$ 1,662,196	\$ 1,794,742

The accompanying notes are an integral part of these financial statements.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Accounting principles generally accepted in the U.S., as established by the Governmental Accounting Standards Board (GASB), define a financial reporting entity as consisting of the primary government and its component units for which the primary government is financially accountable. Financial accountability includes appointing a voting majority of a component unit's governing board, the ability of the primary government to impose its will on the component unit, or the potential for the component unit to provide specific financial benefits to or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for its component units that are fiscally dependent on it.

Based on the above criteria, the Retirement Plan for Chicago Transit Authority Employees (the Plan) is not a component unit of any other entity.

Basis of Accounting

The Plan's financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized as additions in the period in which employee services are performed. Benefits and refunds are recognized as deductions when paid; expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of net assets at the date of the financial statements and the actuarial information included in the required supplementary information as of the benefit information date, the changes in Plan net assets during the reporting period and disclosures of contingent assets and liabilities at the date of the financial statements. Accordingly, actual results may differ from those estimates.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Investments

The Plan is authorized to invest in bonds, notes, and other direct obligations of the U.S. Government and U.S. Government agencies; corporate bonds, debentures, and notes; certain notes secured by mortgages (including pass-through securities); common and preferred stocks; and certain real estate funds, private equity funds, hedge funds, and stable value funds.

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed-income securities are valued principally using quoted market prices provided by independent pricing services. For collective investments, the net asset value is determined and certified by the investment managers as of the reporting date. Guaranteed investment contracts are valued by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuers. The pooled real estate investment funds are reported at net asset value (NAV) of shares held by the Plan at year end based on independent appraisals of underlying properties. Hedge funds, venture capital, and private equity funds do not have established market prices and are reported at NAV of shares held by the Plan at year end as estimated by money managers.

Security Transactions

Purchases and sales of securities are accounted for on the trade dates. For purposes of determining the realized gain or loss on the disposal of investments, the average cost of investments sold is used. Unrealized gains or losses on investments held during the year, as well as realized gains or losses on securities sold are included in the statement of changes in Plan net assets in the year in which they occur.

Investment Income

Dividend income is recorded on the ex-dividend date. Income from other investments is recorded when earned.

Furniture and Office Equipment

Furniture and office equipment are not capitalized, as they are immaterial and are charged to expenses in the year of purchase.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Contributions and Benefits

The Plan accrues, as applicable, the contributions due but not received from the Chicago Transit Authority (the CTA) at the Plan's year end. Pension benefit payments, death benefits, and contribution refunds, including interest, are recorded when paid.

Interest on Refunds of Participant Contributions

Interest on refunds of participant contributions is expensed when the refunds are recorded. Interest on accumulated contributions from continuing participants is reflected in each participant's account annually.

Administrative Expenses

Administrative expenses are recorded as incurred and budgeted and approved by the Plan's Board of Trustees. Administrative expenses are paid from plan assets and investment earnings. Certain administrative expenses are allocated between the Retirement Plan for CTA Employees and the Retiree Health Care Plan based on periodic time and expense studies.

Securities Lending Transactions

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets in the statement of plan net assets at fair value. Securities received as collateral are reported as assets only if the Plan has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statement of plan net assets. The costs of securities lending transactions are reported as deductions in the statement of changes in plan net assets at gross amounts.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recently Issued Accounting Pronouncement *(continued)*

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of GASB Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of GASB Statement No. 67. For defined benefit pension plans, GASB Statement No. 67 specifies the required approach to measure the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Under GASB Statement No. 67, defined benefit pension plans are required to present two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB Statement No. 67 also improves financial reporting through accountability, enhanced note disclosures, and required supplementary information. Statement No. 67 will be effective for fiscal years beginning after June 15, 2013.

NOTE 2 PENSION PLAN

Plan Description

The following brief description of the Plan is provided for general information purposes only. Arbitration awards are periodically handed down and negotiated changes occur. Certain aspects of the Plan are now governed by state statute. These changes can revise certain provisions of the Plan regarding the CTA, employee contributions, and employee death benefits. Those changes that have affected the Plan are summarized in the following notes. Participants should refer to the Plan document, as amended, for complete information.

The Plan is a single-employer contributory defined-benefit public pension plan, covering all full-time CTA permanent employees. The Plan is administered by an 11-member Board of Trustees composed of members appointed by the CTA, the Amalgamated Transit Union (ATU), the Regional Transportation Authority and a member appointed to represent the employees not represented by the ATU. The Plan is classified as a “governmental plan” and is, therefore, exempt from certain provisions of the Employee Retirement Income Security Act of 1974.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 2 **PENSION PLAN** *(continued)*

Plan Description *(continued)*

The Plan was recently amended, effective January 31, 2011, to comply with applicable laws. Employees who have completed one year of continuous service are eligible for participation. At December 31, 2011 and 2010, the numbers of participants were as follows:

	<u>2011</u>	<u>2010</u>
Retirees, disabled participants, and beneficiaries of deceased retirees currently receiving benefits	9,418	9,310
Terminated employees entitled to benefits but not yet receiving benefits	84	60
Active	<u>8,751</u>	<u>8,932</u>
	<u>18,253</u>	<u>18,302</u>

Employees are entitled to annual pension benefits upon normal retirement at age 65, in an amount generally based on a percentage of their average annual compensation in the highest four of the 10 preceding years, multiplied by the number of years of continuous participating service. For employees retiring before December 1, 1987, the percentage was 1.65%. The agreement between the CTA and its unions, signed September 1987, raised the percentage to 1.70% and 1.75% for retirements on or after December 1, 1987 and 1989, respectively. The agreement between the CTA and its unions, signed August 1993, raised the percentage to 1.80% and 1.85% for retirements on or after January 1, 1993 and January 1, 1995, respectively. The Arbitration Award of November 12, 2003, increased the benefit multiplier for service after June 1, 1949, to 2.00% from 1.85% for employees retiring from January 1, 2000 to December 31, 2000, and to 2.15% for employees retiring on and after January 1, 2001. The multiplier for employees retiring before January 1, 2000 remained at 1.85%. During 1995, a Voluntary Early Retirement Incentive Program was offered, which provided a percentage of 2.05% for employees retiring after January 1, 1994. Employees who met the requirements for early retirement had to respond by February 28, 1995. During 1997, the Plan offered a Voluntary Early Retirement Program to eligible employees who have 25 years of continuous service on or before December 31, 1999, and have not retired prior to January 1, 1997, in the form of a retirement allowance of 2.40% for each year of continuous service, with a maximum retirement allowance of 70% of the employee's annual compensation. All eligible employees elected to participate were allowed to retire as soon as possible but no later than December 31, 1999.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 2 **PENSION PLAN** *(continued)*

Plan Description *(continued)*

The Plan permits early retirement at age 55, generally with reduced benefits. However, in the event of early retirement by an employee who has 25 years or more of continuous service, regardless of age, benefits will not be reduced. In accordance with Public Act 095-0708, for all employees hired after January 17, 2008, eligibility for an unreduced pension benefit has changed to age 64 with 25 years of service. All retirees receive a monthly pension benefit. Married employees can elect to receive their pension benefits in the form of a joint and survivor option.

Contributions and Vesting

Contributions from the CTA and employees are based on a percentage of compensation pursuant to various agreements between the CTA and the Union. Starting in January 1, 2010, covered employees are required to contribute 8.345% of their salary to the Plan and the employer is required to contribute 16.69% of compensation. From January 18, 2008 through December 31, 2009, covered employees were required to contribute 6% of their salary to the Plan and the employer was required to contribute 12% of compensation.

For years beginning January 1, 2009 through 2040, the amount of contributions to be paid by the CTA with respect to debt service on bonds issued for contribution to the Plan are treated as a credit against the amount of required contribution up to an amount not to exceed 6% of compensation. The net employer contribution after the credit was 10.69% of compensation for 2011 and 2010, respectively. Prior to January 18, 2008, the CTA's contribution was 6% of total compensation and the employee contribution was 3% of total compensation. From January 1997 to June 1997, there were no employer or employee contributions to the pension fund because of a union contract agreement, which enforced a pension holiday. Contributions resumed in July 1997.

In accordance with Public Act 095-0708 (effective January 18, 2008), the CTA issued bonds and notes in the aggregate amount of \$1,348,550,000, of which net proceeds of \$1,110,500,000 were deposited into the Plan during the year ended December 31, 2008. No bond proceeds were received in 2011 and 2010.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 2 **PENSION PLAN** (*continued*)

Death, Disability, and Other Benefits (*continued*)

Lump-sum death benefits based on age and years of service, ranging from \$2,000 to \$8,000, are paid to the designated beneficiaries. Also, the excess, if any, of employee contributions plus interest on such contributions over pension benefits previously paid to the retiree, and spouse in the case of a survivorship option, is paid to the designated beneficiary.

An employee is eligible for a disability allowance if he or she becomes disabled after completing 10 years of continuous service or, if disability is covered under the Illinois Workers Compensation Act, after completing five years of continuous service. The disability allowance is based on compensation and service to date of disability with a minimum benefit of \$400 per month.

A participant's accumulated contributions plus interest (currently 3% annually) are refunded when the participant is separated from service and has less than 10 years of continuous participation, or when a participant with more than 10 years of service is separated and elects to receive a refund of his contributions.

A participant who is separated from service after completing 10 or more years of continuous service is not eligible for a retirement or disability allowance at separation, and elects not to receive a refund of his contributions, is entitled to receive, at normal retirement age, a deferred vested pension based on length of service and compensation to date of separation.

At December 31, 2011, net assets held in trust for plan benefits included accumulated active employee contributions of \$264,524,466, including accumulated interest of \$37,498,520 (active employee contributions of \$232,254,611, including accumulated interest of \$34,285,300, at December 31, 2010).

Funded Status and Funding Progress

According to Public Act 095-0708, beginning in 2009 and ending on December 31, 2039, if the funding ratio is projected to decline below 60% in any year before 2040, the Board of Trustees will determine the increased contribution required each year as a level percentage of payroll over the years remaining until 2040, using the projected unit credit actuarial cost method, so that the funded ratio does not decline below 60%.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 2 PENSION PLAN *(continued)*

Funded Status and Funding Progress *(continued)*

The funded status of the Plan as of December 31, 2011 and 2010, the most recent actuarial valuation dates, is as follows (amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/11	\$ 1,662,196	\$ 2,808,184	\$ 1,145,988	59.2%	\$ 541,354	211.7%
12/31/10	1,909,967	2,724,191	814,224	70.1	528,288	154.1

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of the Plan's assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2011 and 2010
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value for 2011 and 5-year smoothed market for 2010

Actuarial assumptions

Investment rate of return	8.50% for 2011 and 2010
Projected salary increases	2.75% for 2010-2011, 1.50% for 2012-2014, and service-graded table with 5.0% ultimate rate after five years of service thereafter

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 3 INVESTMENTS

Investment Policy

The primary objective of the Plan's investment policy is to provide a structured approach in implementing the Plan's investment strategies to achieve above-average returns consistent with prudent risk and investment volatility.

To minimize the impact of large losses and to reduce annual variability of returns, the Plan's assets are allocated across major asset classes and diversified broadly within each asset class.

Investment Summary

The Plan's investments were held by the Northern Trust Company (TNT) as Trustee under a 1996 trust agreement.

The following table summarizes the Plan's investments by type at December 31, 2011 and 2010 (amounts in thousands):

	<u>2011</u>	<u>2010</u>
Asset-backed securities	\$ 13,082	\$ 17,010
Commercial mortgage-backed securities	5,907	6,682
Corporate bonds/funds	109,715	121,595
Government agency securities/funds	103,632	130,926
Government bonds	38,631	39,805
Government mortgage-backed securities	28,584	29,735
Government issued commercial mortgage-backed	206	-
Municipal/provincial bonds	606	1,355
Guaranteed fixed income	402	4,014
Non-government-backed CMOs	2,179	2,620
Index-linked government bonds	259	463
Guaranteed investment contracts	3,381	3,241
Synthetic GIC	13,065	6,078
U.S. equities	631,379	703,918
Foreign equities	245,673	307,230
Real estate—pooled funds	120,001	49,206
Venture capital and partnerships	91,323	121,988
Short-term investments and currency positions	77,133	60,388
Hedge funds	<u>171,939</u>	<u>182,973</u>
Total investments, at fair value	<u>\$ 1,657,097</u>	<u>\$ 1,789,227</u>

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 3 **INVESTMENTS** *(continued)*

Investment Summary *(continued)*

Net investment (loss) income for the years ended December 31, 2011 and 2010 consisted of the following (amounts in thousands):

	2011	2010
<i>Investment (loss) income:</i>		
Interest	\$ 14,726	\$ 12,977
Dividends	18,133	16,809
Miscellaneous	257	11
Securities lending	820	692
Net (depreciation) appreciation in fair value of investments	(37,348)	175,815
Net investment (loss) income before investment expenses	(3,412)	206,304
<i>Less: Investment expenses</i>		
Securities lending fees	(205)	(173)
Management fees and other	(9,401)	(8,814)
Net investment (loss) income	\$ (13,018)	\$ 197,317

Investment Risks

The Plan's investments are subject to risks, including interest rate risk, credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk. The following describes those risks:

Interest Rate Risk—The risk that the fair value of debt securities will decrease due to increases in the prevailing market interest rate. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Plan manages its exposure to interest rate risks by purchasing a combination of short- and long-term investments and by timing cash flow from maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 3 INVESTMENTS *(continued)*

Investment Risks *(continued)*

The following tables show the segmented time distribution of the Plan's investment maturities based on the investments' cash flows.

At December 31, 2011, the Plan had the following investments and maturities related to certain fixed income securities (amounts in thousands):

<u>Investment Type</u>	<u>Market Value</u>	<u>Investment Maturities</u>					<u>Not Determined</u>
		<u>Less Than 1 Year</u>	<u>1 to 6 Years</u>	<u>7 to 10 Years</u>	<u>More Than 10 Years</u>		
Asset-backed securities	\$ 13,082	\$ -	\$ 1,499	\$ 4,412	\$ 7,171	\$ -	
Commercial mortgage-backed securities	5,907	-	-	-	5,907	-	
Corporate bonds/funds	109,715	915	17,216	11,939	3,643	76,002	
Government agency securities/funds	103,632	1,167	7,180	3,026	68	92,191	
Government bonds	38,631	436	19,294	10,159	8,742	-	
Government mortgage-backed securities	28,584	-	629	3,137	24,818	-	
Government issued commercial mortgage-backed securities	206	-	-	206	-	-	
Municipal/provincial bonds	606	-	-	-	606	-	
Guaranteed fixed income Non-government-backed CMOs	402	402	-	-	-	-	
	2,179	-	-	1,189	990	-	
Index-linked government bonds	259	-	259	-	-	-	
Synthetic GIC	13,065	-	-	-	-	13,065	
Guaranteed investment contracts	3,381	3,381	-	-	-	-	
Total	<u>\$ 319,649</u>	<u>\$ 6,301</u>	<u>\$ 46,077</u>	<u>\$ 34,068</u>	<u>\$ 51,945</u>	<u>\$ 181,258</u>	

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 3 INVESTMENTS *(continued)*

Investment Risks *(continued)*

At December 31, 2010, the Plan had the following investments and maturities related to certain fixed income securities (amounts in thousands):

<u>Investment Type</u>	<u>Market Value</u>	<u>Investment Maturities</u>				<u>Not Determined</u>
		<u>Less Than 1 Year</u>	<u>1 to 6 Years</u>	<u>7 to 10 Years</u>	<u>More Than 10 Years</u>	
Asset-backed securities	\$ 17,010	\$ -	\$ 2,922	\$ 7,069	\$ 7,019	\$ -
Commercial mortgage-backed securities	6,682	-	-	-	6,682	-
Corporate bonds/funds	121,595	1,847	22,083	14,024	4,136	79,505
Government agency securities/funds	130,926	999	14,683	3,596	868	110,780
Government bonds	39,805	-	21,062	9,988	8,755	-
Government mortgage-backed securities	29,735	-	2,387	2,751	24,597	-
Municipal/provincial bonds	1,355	-	-	-	1,355	-
Guaranteed fixed income	4,014	-	4,014	-	-	-
Non-government-backed CMOs	2,620	-	-	424	2,196	-
Index-linked government bonds	463	-	-	205	258	-
Synthetic GIC	6,078	-	-	-	-	6,078
Guaranteed investment contracts	<u>3,241</u>	<u>-</u>	<u>3,241</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 363,524</u>	<u>\$ 2,846</u>	<u>\$ 70,392</u>	<u>\$ 38,057</u>	<u>\$ 55,866</u>	<u>\$ 196,363</u>

Credit Risk—The risk that the issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings issued by national rating agencies, such as Moody's and Standard & Poor's.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 3 INVESTMENTS *(continued)*

Investment Risks *(continued)*

The following tables provide information on the credit ratings associated with the Plan's investments in debt securities. Ratings were obtained from Standard & Poor's (amounts in thousands):

	2011											
	AAA	AA	A	BBB	BB	B	CCC	CC	D	Not Rated	Agencies	Total
Asset-backed securities	\$ 2,849	\$ 170	\$ 724	\$ -	\$ 82	\$ -	\$ 277	\$ -	\$ -	\$ 8,980	\$ -	\$ 13,082
Commercial mortgage-backed	5,471	-	-	-	-	-	-	-	-	436	-	5,907
Corporate bonds/funds	1,406	2,262	11,897	13,694	1,577	405	-	-	-	78,474	-	109,715
Government agency securities/funds	1,882	9,085	-	68	-	-	-	-	-	406	92,191	103,632
Government bonds	-	606	-	562	-	-	-	-	-	-	37,463	38,631
Government mortgage-backed securities	-	367	-	-	-	-	-	-	-	570	27,647	28,584
Government issued CMB	-	-	-	-	-	-	-	-	-	-	206	206
Municipal/Pro-vincial bonds	-	-	25	-	-	-	-	-	-	581	-	606
Guaranteed fixed income	402	-	-	-	-	-	-	-	-	-	-	402
Non-government backed CMOs	921	-	-	-	-	470	5	87	317	379	-	2,179
Index-linked government bonds	-	-	-	-	-	-	-	-	-	-	259	259
Synthetic GIC	-	-	-	-	-	-	-	-	-	13,065	-	13,065
GIC	-	-	-	-	-	-	-	-	-	-	3,381	3,381
Total	\$ 12,931	\$ 12,490	\$ 12,646	\$ 14,324	\$ 1,659	\$ 875	\$ 282	\$ 87	\$ 317	\$ 102,891	\$ 161,147	\$ 319,649

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 3 INVESTMENTS *(continued)*

Investment Risks *(continued)*

	2010									
	AAA	AA	A	BBB	BB	B	CC	Not Rated	Agencies	Total
Asset-backed securities	\$ 5,007	\$ 111	\$ -	\$ -	\$ 110	\$ 360	\$ -	\$ 11,422	\$ -	\$ 17,010
Commercial mortgage-backed	6,258	-	-	-	-	-	-	424	-	6,682
Corporate bonds/funds	2,392	3,013	15,145	17,222	1,310	416	-	82,097	-	121,595
Government agency securities/funds	18,621	-	251	122	-	-	-	407	111,525	130,926
Government bonds	29,370	571	-	491	-	-	-	-	9,373	39,805
Government mortgage-backed securities	1,914	-	-	-	-	-	-	1,008	26,813	29,735
Municipal/Provincial bonds	102	776	-	-	-	-	-	477	-	1,355
Guaranteed fixed income	-	3,912	102	-	-	-	-	-	-	4,014
Non-government backed CMOs	2,012	-	-	4	220	-	384	-	-	2,620
Index-linked government bonds	463	-	-	-	-	-	-	-	-	463
Synthetic GIC	-	-	-	-	-	-	-	6,078	-	6,078
GIC	-	-	-	-	-	-	-	-	3,241	3,241
Total	<u>\$ 66,139</u>	<u>\$ 8,383</u>	<u>\$ 15,498</u>	<u>\$ 17,839</u>	<u>\$ 1,640</u>	<u>\$ 776</u>	<u>\$ 384</u>	<u>\$ 101,913</u>	<u>\$ 150,952</u>	<u>\$ 363,524</u>

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 3 **INVESTMENTS** *(continued)*

Investment Risks *(continued)*

Custodial Credit Risk—For an investment, it is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty's trust department or agent but not in the Plan's name. The Plan's master custodian holds all investments of the Plan in the Plan's name. As of December 31, 2011 and 2010, deposits of \$238,000 and \$759,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

Concentration of Credit Risk—The Plan's investment policy limits the aggregate amount that can be invested in each asset class. Domestic equity, international equity, fixed income, real estate, private equity, and hedge fund investments are limited to 46%, 5%, 22%, 10%, 6%, and 11% of the fair market value of the aggregate portfolio, respectively.

There were no investments that represented 5% or more of the Plan's net assets at December 31, 2011 and 2010.

Foreign Currency Risk—This risk changes due to fluctuations in exchange rates, adversely affecting the fair value of an investment. International equity securities purchased by the Plan meet exchange listing requirements; all foreign equities held by the Plan are denominated in U.S. dollars. The Plan's exposure to foreign currency risk is as follows (amounts in thousands):

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 3 INVESTMENTS *(continued)*

Investment Risks *(continued)*

<u>Type of investment</u>	<u>(US\$) 2011</u>	<u>(US\$) 2010</u>
<i>Short-term investments and currency position</i>		
Australian dollar	\$ 6	\$ 24
British pound sterling	56	43
Danish krone	-	9
European euro	10	126
Hong Kong dollar	-	371
Japanese yen	170	202
New Israeli shekel	4	-
Norwegian krone	-	15
Singapore dollar	5	32
Swiss franc	14	10
	<u>\$ 265</u>	<u>\$ 832</u>
<i>Equities</i>		
Australian dollar	\$ 4,414	\$ 7,455
Brazilian real	591	1,855
British pound sterling	26,161	30,234
Canadian dollar	3,293	3,813
European euro	29,780	43,368
Hong Kong dollar	19,568	18,454
Indonesian rupiah	1,240	1,211
Japanese yen	26,188	28,580
Malaysian ringgit	-	1,417
Mexican peso	1,622	1,745
New Israeli shekel	270	538
Norwegian krone	1,073	304
Philippine peso	907	739
Singapore dollar	5,579	6,847
South African rand	2,695	3,445
South Korean won	10,190	9,741
Swedish krona	5,289	2,676
Swiss franc	6,783	9,834
Thai baht	1,247	1,127
	<u>\$ 146,890</u>	<u>\$ 173,383</u>

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 4 DERIVATIVES

The Plan's investment managers may enter into derivative transactions as permitted by their guidelines for hedging or risk reduction, but not for speculative purposes. A derivative financial instrument's payoff depends on the value of an underlying such as bond or stock prices, a market index, or commodity prices. Derivative financial instruments involve, to varying degrees, credit risk and market risk. The Plan did not invest in derivative instruments during 2011 and 2010.

NOTE 5 SECURITIES LENDING PROGRAM

On July 10, 1996, the Board of Trustees entered into a securities lending agreement with TNT, the custodian to the Plan. The Plan participates in TNT's securities lending program by lending certain securities to borrowers, thereby earning additional income, which is included in net investment (loss) income on the statement of changes in plan net assets. Loans of securities through TNT are collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies, equal to at least 102% of the current fair value of the U.S. loaned securities and 105% of the current fair value of the loaned non-U.S. securities. Lending securities involves certain risks, the most significant of which is the risk that a borrower may fail to return a portfolio security.

Additionally, the Plan would be exposed to the credit risk of the borrower should the market value of the securities loaned exceed the market value of the collateral pledged.

All securities loans can be terminated on demand by either the Plan or the borrower, although the average term of the loans is 75 days and 108 days as of December 31, 2011 and 2010, respectively. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end 2011 and 2010 has a weighted-average maturity of 31 days and 25 days, respectively. The relationship between the maturities of the investment pool and the Plan's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Plan cannot determine. The Plan cannot pledge or sell collateral securities received unless the borrower defaults.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 5 SECURITIES LENDING PROGRAM *(continued)*

Loans outstanding as of December 31, 2011 and 2010 were as follows (amounts in thousands):

	2011	2010
Fair value of securities loaned for cash collateral	\$ 228,694	\$ 238,770
Fair value of securities loaned for non-cash collateral	<u>1,527</u>	<u>1,873</u>
Total fair value of securities loaned	<u>\$ 230,221</u>	<u>\$ 240,643</u>
Fair value of cash collateral from borrowers	\$ 234,653	\$ 244,925
Fair value of non-cash collateral from borrowers	<u>1,568</u>	<u>1,914</u>
Total fair value of collateral from borrowers	<u>\$ 236,221</u>	<u>\$ 246,839</u>

NOTE 6 UNFUNDED INVESTMENT COMMITMENTS

The Plan had unfunded commitments of approximately \$67.5 million at December 31, 2011 and \$34 million at December 31, 2010, in connection with real estate and private equity investments.

NOTE 7 RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market volatility, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that those changes could materially affect the amounts reported in the statement of plan net assets.

Contributions to the Plan and the actuarial information included in the required supplementary information are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these assumptions, it is reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

The Plan is subject to various claims and legal proceedings arising in the ordinary course of business which, in management's opinion, will be resolved without any material adverse effect on the net assets or changes in net assets of the Plan.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
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December 31, 2011 and 2010

NOTE 8 PRIORITIES AT PLAN TERMINATION

While the CTA intends to maintain the Plan permanently, should the Plan terminate, the Plan's net assets would be allocated and used generally to provide the following, in the order indicated:

- a. Refunds of participant contributions plus interest, less benefits paid.
- b. Retirement and disability benefits to participants who have retired or reached age 65 on the date of termination.
- c. In the event a balance remains, it will be used to provide for reduced retirement and disability benefits for all other participants.

NOTE 9 TAX STATUS

The Internal Revenue Service (IRS) issued a letter of determination dated April 11, 2012, stating that the Plan is qualified under Section 401 of the Internal Revenue Code (the Code) and is, therefore, exempt from Federal income taxes under the provisions of Section 501(a) of the Code. The Plan is required to operate in conformity with the Code to maintain this qualification. The Plan's management is not aware of any course of action or series of events that have occurred that may adversely affect the Plan's tax status.

NOTE 10 OPERATING LEASE

The Plan has a lease agreement in place for office space. The lease expires on December 31, 2013. At December 31, 2011, the minimum future rental lease payments for the next two years are as follows (amounts in thousands):

<u>Year</u>	<u>Amount</u>
2012	\$ 96
2013	<u> 97</u>
	<u>\$ 193</u>

Rent and utilities paid were \$109,632 in 2011 and \$98,977 in 2010. The amount of rent paid for 2011 and 2010 represents 75% of the total amount paid by the Plan. The other 25% is reimbursed by the Chicago Transit Authority Retiree Health Care Plan based on management's expense allocation.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 11 SUBSEQUENT EVENTS

In accordance with Public Act 095-0708, the statutory minimum contribution rates applicable for 2012 are 11.30%, net of credit for debt service on pension obligation bonds for the Chicago Transit Authority, and 8.65% for CTA employees. The statutory minimum contribution rates from 2013 to 2039 are 14.25%, net of credit for debt service on pension obligation bonds for the Chicago Transit Authority, and 10.125% for CTA employees.

The Plan was amended effective January 31, 2011 to comply with applicable laws. The IRS issued a favorable determination letter on the amended Plan, dated April 11, 2012, subject to the Plan's adoption of certain additional amendments under the Code. The Plan adopted those additional amendments effective July 3, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Required Supplementary Information
Schedule of Funding Progress
For the Years Ended December 31, 2011 and 2010
(Amounts in thousands)

(Unaudited)

<u>Year</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Projected Unit Credit* (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ([b-a]/c)</u>
2011*	1/01/12	\$ 1,662,196	\$ 2,808,184	\$ 1,145,988	59.2%	\$ 541,354	211.7%
2010**	1/01/11	1,909,967	2,724,191	814,224	70.1	528,288	154.1
2009	1/01/10	1,936,849	2,588,462	651,613	74.8	567,173	114.9
2008	1/01/09	1,995,953	2,632,356	636,403	75.8	594,139	107.1
2007***	1/01/08	941,864	2,531,440	1,589,576	37.2	571,314	278.2
2006****	1/01/07	1,007,305	2,466,106	1,458,801	40.8	562,567	259.3

* Effective January 1, 2012, the actuarial value of assets was changed to market value.

** Effective January 1, 2011, the rate of return for disclosure purposes was changed from 8.75% to 8.50%.

*** Effective January 1, 2008, the rate of return for disclosure purposes was changed from 9% to 8.75%.

**** Effective January 1, 2007, retiree healthcare assets have been marked to market value of the retiree health care account and are disclosed under GASB 43. Previously, retiree health care assets disclosed under GASB 25 were allocated in proportion to actuarial accrued liabilities. This change in method in valuing retiree health care assets increased the funded ratio of the Plan in 2006; otherwise, the 2006 funded ratio would have decreased.

See notes to required supplementary information.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Required Supplementary Information
Schedule of Employer and Employee Contributions
For the Years Ended December 31, 2011 and 2010
(Amounts in thousands)

(Unaudited)

<u>Year Ended December 31,</u>	<u>Annual Total Contribution</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed (%)</u>
2011	\$ 107,487	\$ 123,158	87.3%
2010	101,481	108,478	93.5
2009	76,422	118,717	64.4
2008	1,193,745	206,670	577.6
2007	37,587	198,457	18.9
2006	35,902	194,926	18.4

See notes to required supplementary information.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Required Supplementary Information
December 31, 2011 and 2010

(Unaudited)

NOTE 1 ACTUARIAL ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2011 and 2010, respectively
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Amortization period	30 years
Asset valuation method	Market value for 2011 and five-year smoothed market for 2010
<i>Actuarial assumptions</i>	
Investment rate of return	8.50% for 2011 and 2010
Projected salary increases	2.75% for 2010-2011, 1.50% for 2012-2014, and service-graded table with 5.0% ultimate rate after five years of service thereafter

OTHER SUPPLEMENTARY INFORMATION

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Other Supplementary Information
Schedule of Investment and Administrative Expenses
For the Years Ended December 31, 2011 and 2010

(Amounts in thousands)

	2011	2010
INVESTMENT EXPENSES		
Reporting and monitoring	\$ 42	\$ 56
Real estate expenses	79	79
Investment management fees	7,683	7,442
Trustee fees	623	407
Investment advisors	974	830
Total investment expenses	\$ 9,401	\$ 8,814
ADMINISTRATIVE EXPENSES		
<i>Personal services</i>		
Staff salaries and fringe benefits	\$ 1,269	\$ 1,040
<i>Professional services</i>		
Actuarial	55	78
Auditing	64	83
Data processing	88	73
Legal	216	217
Third-party administrator	466	362
	889	813
<i>Communication</i>		
Stationery and printing	1	2
Telephone	20	12
Postage and messenger	10	6
	31	20
<i>Office and equipment</i>		
Office space	82	74
Utilities	2	2
Office repairs	-	14
Equipment	9	7
	93	97
<i>Insurance</i>		
Fiduciary insurance	80	-
<i>Miscellaneous</i>		
Seminars and travel	4	3
Supplies	9	3
Legal research	5	-
Court reporting	12	16
Other	16	36
	46	58
Total administrative expenses	\$ 2,408	\$ 2,028

See accompanying report of independent auditors.