

**RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES**

**Financial Statements and Supplementary Information
For the Years Ended December 31, 2016 and 2015
With Independent Auditor's Report**



MITCHELL TITUS
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**RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES**
For the Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Retirement Plan for Chicago Transit Authority Employees

Report on the Financial Statements

We have audited the accompanying financial statements of the Retirement Plan for Chicago Transit Authority Employees (the Plan), which comprise the statements of fiduciary net position as of December 31, 2016 and 2015, the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2016 and 2015, and the changes in its financial position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying 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 basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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 29, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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, 2016 and 2015. 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 financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States (GAAP) as established by the Governmental Accounting Standards Board (GASB) and are described below:

- *The Statement of Fiduciary Net Position* presents the Plan's assets and liabilities and the resultant net position 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 Fiduciary Net Position* 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 changes in the employer's net pension liability and related ratios, a schedule of employer contributions and a schedule of investment returns as well as the related notes to discuss actuarial assumptions and methods. Such schedules provide information to aid in the analysis of the Plan's funded status and the internal rate of return on pension plan investments.

- *The Schedule of Changes in the Employer's Net Pension Liability and Related Ratios* shows the liability of the employer to plan members and retirees for benefits provided through the pension plan and the changes thereof during the year.
- *The Schedule of Employer Contributions* contains historical trend information of employer contributions. It shows the amounts of required employer contributions and the related amounts the employer has contributed to meet its requirement.
- *The Schedule of Investment Returns* shows the period-by-period returns on pension plan investments that adjust for the changing amounts actually invested. It represents an internal rate of return on pension plan investments, net of pension plan investment expenses.
- *The Notes to the Required Supplementary Information* describes the actuarial method and assumptions used to aid in the understanding of the required supplementary schedules.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Financial Highlights

- The fiduciary net position held in trust for Plan benefits totaled approximately \$1.73 billion at December 31, 2016, compared to \$1.74 billion at December 31, 2015 and \$1.86 billion at December 31, 2014. The fiduciary net position is available for payment of members' pensions.
- For the 2016 Plan year, the addition to fiduciary net position was \$262.0 million, and consisted of contribution revenue of \$143.4 million, increased by a net investment gain of \$118.6 million. The addition to fiduciary net position for the 2015 Plan year was \$150.0 million, which consisted of contribution revenue of \$141.8 million, increased by a net investment gain of \$8.2 million.
- Benefit payments to retirees increased by \$7.9 million in 2016, \$7.8 million in 2015, and \$7.2 million in 2014. Refunds of member contributions decreased by \$1.5 in 2016, decreased by \$0.9 in 2015, and increased by \$2.3 million in 2014.
- The funded ratio of the Plan for pension benefits was 52.5% at December 31, 2016, 53.3% at December 31, 2015, compared to 58.2% at December 31, 2014. The decrease in the funded ratio at December 31, 2016 compared to December 31, 2015 was for a number of reasons, including market value returns of 6.8% compared to 8.25% assumed, payroll and salaries increased less than expected and demographic experience. The decrease in the funded ratio at December 31, 2015 compared to December 31, 2014 was for a number of reasons, including market value returns of (0.2)% compared to 8.25% assumed, payroll and salaries increased less than expected and demographic experience.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Fiduciary Net Position

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

Fiduciary Net Position

(in millions)

As of December 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016-2015</u> <u>Change</u>	
				<u>\$</u>	<u>%</u>
Receivables	\$ 27.8	\$ 17.2	\$ 17.6	\$ 10.6	61.6%
Brokers–unsettled trades	18.2	4.7	2.7	13.5	287.2
Investments, at fair value	1,725.1	1,728.7	1,842.2	(3.6)	(0.2)
Invested securities lending collateral	<u>126.0</u>	<u>192.4</u>	<u>257.4</u>	<u>(66.4)</u>	<u>(34.5)</u>
Total assets	<u>1,897.1</u>	<u>1,943.0</u>	<u>2,119.9</u>	<u>(45.9)</u>	
Brokers–unsettled trades	31.2	3.7	2.6	27.5	743.2
Securities lending payable	126.0	192.4	257.4	(66.4)	(34.5)
Accounts payable and accrued expenses	<u>3.5</u>	<u>3.7</u>	<u>4.0</u>	<u>(0.2)</u>	<u>(5.4)</u>
Total liabilities	<u>160.7</u>	<u>199.8</u>	<u>264.0</u>	<u>(39.1)</u>	
Fiduciary net position	<u>\$ 1,736.4</u>	<u>\$ 1,743.2</u>	<u>\$ 1,855.9</u>	<u>\$ (6.8)</u>	<u>(0.4)%</u>

Fiduciary net position decreased by \$6.8 million, or 0.4%, at December 31, 2016 from \$1,743.2 million at December 31, 2015. It decreased by \$112.7 million, or 6.1%, at December 31, 2015 from \$1,855.9 million at December 31, 2014.

The decrease in fiduciary net position at December 31, 2016 and 2015 was primarily due to member and employer contributions and investment returns less than benefit payments and other deductions. In 2016, total additions were enough to cover benefit payments. The overall reduction of fiduciary net position was impacted by the liquidation of marketable securities to meet monthly benefit obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Changes in Fiduciary Net Position

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

Changes in Fiduciary Net Position (in millions) Years Ended December 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016-2015</u> <u>Change</u>	
				<u>\$</u>	<u>%</u>
Additions					
Member contributions	\$ 59.6	\$ 59.0	\$ 58.5	\$ 0.6	1.0%
Employer contributions	83.8	82.8	82.3	1.0	1.2
Net investment gains and investment income	<u>118.6</u>	<u>8.2</u>	<u>78.7</u>	<u>110.4</u>	1346.3
Total additions	<u>262.0</u>	<u>150.0</u>	<u>219.5</u>	<u>112.0</u>	
Deductions					
Annuity and disability benefits	261.4	253.5	245.7	7.9	3.1
Refunds of contributions	4.8	6.3	7.2	(1.5)	(23.8)
Administrative expenses	<u>2.6</u>	<u>2.9</u>	<u>3.4</u>	<u>(0.3)</u>	(10.3)
Total deductions	<u>268.8</u>	<u>262.7</u>	<u>256.3</u>	<u>6.1</u>	
Net (decrease) increase	<u><u>\$ (6.8)</u></u>	<u><u>\$ (112.7)</u></u>	<u><u>\$ (36.8)</u></u>	<u><u>\$ 105.9</u></u>	94.0%

Additions to the Plan's fiduciary net position are derived from member contributions, employer contributions and investment income. Total additions were \$262.0 million in 2016, \$150.0 million in 2015 and \$219.5 million in 2014.

Total additions of \$262.0 million in 2016 were higher than the amounts in 2015, primarily due to a net investment gain of \$118.6 million in 2016 compared to a net investment gain of \$8.2 million in 2015. This represents an increase of \$110.4 million, or 1,346.3%, in 2016 compared to 2015. In 2016, member contributions increased slightly by \$0.6 million, or 1.0%, and employer contributions increased by \$1.0 million, or 1.2%, compared to 2015 due to negotiated wage increases.

Total additions of \$150.0 million in 2015 were lower than the amounts in 2014, primarily due to a net investment gain of \$8.2 million in 2015 compared to a net investment gain of \$78.7 million in 2014. This represents a decrease of \$70.5 million, or 89.6%, in 2015 compared to 2014. In 2015, member contributions increased slightly by \$0.5 million, or 0.9%, and employer contributions increased by \$0.5 million, or 0.6%, compared to 2014 due to negotiated wage increases.

Deductions increased by \$6.1 million in 2016, \$6.4 million in 2015, and \$10.6 million in 2014. The increases in 2016, 2015 and 2014 were mainly due to increases in annuity and disability benefits. Administrative expenses decreased by \$0.3 million in 2016, mainly due to a decrease in legal and professional services during the year. Administrative expenses decreased by \$0.5 million in 2015, or 14.7%, mainly due to a decrease in legal and professional services during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Plan Membership

The following table presents the changes in Plan membership as of December 31, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016-2015</u>	
				<u>Change</u>	<u>%</u>
Retirees and beneficiaries receiving benefits	10,150	10,028	9,890	122	1.2 %
Active employees	8,129	8,204	8,251	(75)	(0.9)%
Terminated (inactive members) employees entitled to benefits or refunds of contributions	105	98	103	7	7.1 %
Total	<u>18,384</u>	<u>18,330</u>	<u>18,244</u>	<u>54</u>	<u>0.3 %</u>

Funding Status

The Plan's funding status for pension benefits is as follows:

Funding Status for Pension Benefits At December 31, 2016, 2015 and 2014 (in millions)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>GASB Statement No. 67</i>			
Employer's net pension liability	\$1,721	\$1,609	\$1,427
Plan fiduciary net position as a percentage of the total pension liability	50.23%	52.00%	56.53%
<i>Current Funding Policy under 40 ILCS 5/22-101(e)</i>			
Unfunded actuarial accrued liability	\$1,586	\$1,524	\$1,330
Funded ratio	52.49%	53.36%	58.25%

Actuarial assumption changes: For statutory funding purposes, during 2016, the asset valuation method was changed from the market value of assets to a 5-year smoothed actuarial value of assets.

The Plan adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*, during the year ended December 31, 2014. See Note 7 in the financial statements for further information.

The above table presents funding information for pension benefits reflecting the requirements under GASB Statement No. 67 and the current funding policy under 40 Illinois Compiled Status 5 Section 22-101(e).

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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, under 40ILCS 5/22-101(e) of the Plan was 52.5% at December 31, 2016, 53.4% at December 31, 2015 and 58.3% at December 31, 2014. The decrease in the funded ratio was mainly due to losses from a combination of two principal factors: demographic experience and investment performance.

Effective January 1, 2007, the retiree healthcare assets included in the Retirement Plan were marked to the fair market value of the retiree healthcare account and 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 Chicago Transit Authority (CTA) employees hired after January 17, 2008 and created a separate Retiree 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.

Changes to the Plan from Public Act 095-0708 effectively removed the liability for retiree healthcare benefits from the Retirement Plan, effective January 1, 2009. There were no Plan assets available for retiree healthcare benefits in the Retirement Plan since December 31, 2009, 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, 2016, 2015 and 2014.

Investment Activities

The Plan's fiduciary net position held for investment was \$1.7 billion at year-end 2016, a decrease of \$6.8 million over 2015, with a total Plan rate of return of 7.2%. Domestic equity investment managers returned a positive 14.1%, while non-U.S. equity investment managers returned a positive 3.9%, and total fixed income returned a positive 4.9% for the year ended December 31, 2016. The Plan's fiduciary net position held for investment was \$1.7 billion at year-end 2015, a decrease of \$112.7 million over 2014, with a total Plan rate of return of 0.2%. Domestic equity investment managers returned a negative 3.4%, while non-U.S. equity investment managers returned a negative 3.9%, and total fixed income returned a negative 0.4% for the year ended December 31, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

During 2014, new investment asset allocation was approved by the Board of Trustees as recommended by our Investment Consultants; therefore, the Retirement Plan began to move assets in-line with the newly adopted policy target. Investment asset allocation for 2016 and 2015 was 28% of assets invested in domestic equity, 21% in international equity, 17% in real estate (including 5% in infrastructure), 10% in private equity, 7% in hedge funds, and 17% in fixed income. During 2016 and 2015, the Plan's investment asset allocation stayed within its target asset allocation ranges.

Investment Returns (Calendar Year Gross of Fees Performance Basis) Years Ended December 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Plan	7.2%	0.2%	5.2%
Benchmark portfolio	6.4	0.7	6.9
Domestic equities	14.1%	(3.4)%	9.5%
Benchmark (Russell 3000)	12.7	0.5	12.6
International equities	3.9%	(3.9)%	(6.1)%
Benchmark (MSCI EAFE)	4.5	(5.7)	(3.9)
Fixed income	4.9%	(0.4)%	2.9%
Benchmark (Barclays Aggregate)	2.6	0.6	6.0
Real estate	8.3%	15.6%	13.8%
Benchmark (CPI+5.5% over rolling five-year periods)	7.2	5.8	5.8
Private equity	3.0%	11.0%	9.1%
Benchmark (Cambridge Associates All PE)	9.7	7.3	11.2
Hedge fund	0.6%	1.4%	4.5%
Benchmark (HFRI FOF Conservative Index)	1.9	0.4	3.1

Subsequent Events

The Internal Revenue Service (IRS) issued a letter of determination dated March 8, 2017, stating that the Plan meets the requirements of a governmental plan under Section 414(d) of the Internal Revenue Code. Such determination was made on the condition that the Plan adopt two proposed amendments. The first proposed amendment is to add a new subparagraph to the first paragraph of Rule No. 14, in order to update the Plan's definition of compensation to include differential wage payments to comply with the HEART Act. The second proposed amendment is to revise the second sentence of the last paragraph of Rule No. 30, in order to explicitly provide that all distributions from the Plan will be made in accordance with Income Tax Regulations Sections 1.401(a)(9)-2 through 1.401(a)(9)-9. Both amendments were approved by the Board on the monthly meeting dated May 25, 2017.

Starting January 1, 2018, covered employees are required to contribute 12.010% of their salary to the Plan and the employer is required to contribute 18.019%, which is net of a credit for debt service on pension obligation bonds.

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
55 West Monroe Street, Suite 1950
Chicago, Illinois 60603

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Statements of Fiduciary Net Position
December 31, 2016 and 2015
(Amounts in thousands)

	<u>2016</u>	<u>2015</u>
ASSETS		
Deposits	\$ 101	\$ 100
Securities lending cash collateral	125,958	192,405
Total cash	<u>126,059</u>	<u>192,505</u>
<i>Receivables</i>		
Employer contributions	14,318	7,943
Employee contributions	10,198	5,652
Securities sold, but not received	18,241	4,735
Accrued interest and dividends	1,912	2,125
Other	1,248	1,400
Total receivables	<u>45,917</u>	<u>21,855</u>
Prepaid expense	12	20
<i>Investments</i>		
Fixed income	347,101	351,067
Domestic equities	528,524	564,884
International equities	317,115	303,445
Venture capital and partnerships	66,585	72,241
Real estate	228,205	210,758
Hedge funds	193,714	193,335
Short-term investments	43,875	32,917
Total investments	<u>1,725,119</u>	<u>1,728,647</u>
Total assets	<u>1,897,107</u>	<u>1,943,027</u>
LIABILITIES		
<i>Payables</i>		
Collateral payable for securities lending	125,958	192,405
Accounts payable	2,046	2,144
Other payables	1,559	1,536
Securities purchased, but not paid	31,175	3,726
Total liabilities	<u>160,738</u>	<u>199,811</u>
Net position restricted for pensions	<u>\$ 1,736,369</u>	<u>\$ 1,743,216</u>

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

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Statements of Changes in Fiduciary Net Position
For the Years Ended December 31, 2016 and 2015
(Amounts in thousands)

	<u>2016</u>	<u>2015</u>
ADDITIONS		
<i>Contributions</i>		
Employer	\$ 83,855	\$ 82,800
Employee	59,560	58,993
Total contributions	<u>143,415</u>	<u>141,793</u>
<i>Investment income</i>		
Net appreciation (depreciation) in fair value of investments	96,096	(18,701)
Interest and dividends	28,486	33,639
Miscellaneous	57	98
Less: Investment expense, other than from securities lending	<u>(6,792)</u>	<u>(7,797)</u>
Net income from investing, other than from securities lending	<u>117,847</u>	<u>7,239</u>
Securities lending income	1,021	1,328
Less: Securities lending expense	<u>(255)</u>	<u>(337)</u>
Net income from securities lending	<u>766</u>	<u>991</u>
Net investment income	<u>118,613</u>	<u>8,230</u>
Total additions	<u>262,028</u>	<u>150,023</u>
DEDUCTIONS		
<i>Benefit payments and contribution refunds</i>		
Benefit payments	261,389	253,436
Contribution refunds, including interest	4,840	6,354
Administrative expenses	2,646	2,929
Total deductions	<u>268,875</u>	<u>262,719</u>
Net decrease in net position	<u>(6,847)</u>	<u>(112,696)</u>
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of year	1,743,216	1,855,912
End of year	<u>\$ 1,736,369</u>	<u>\$ 1,743,216</u>

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

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Accounting principles generally accepted in the United States of America (U.S. GAAP), 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) has no component units and 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 when due and payable in accordance with the terms of the Plan; 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 U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of fiduciary net position 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 fiduciary net position 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.

Deposit and 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.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

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

Deposit and Investments *(continued)*

The Plan does not have a formal deposit and investment risk policy. Investment risk management is a function of the Plan's asset allocation process. Plan assets are diversified over a broad range of asset classes, utilizing multiple investment strategies to limit concentration risk.

Method Used to Value Investments

To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 6. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Deposit and short-term investments are reported at amortized 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 (NAV) is determined and certified by the investment managers as of the reporting date. Guaranteed investment contracts are carried at contract value, which is principal plus accumulated interest less any withdrawals. The real estate-open end investment funds are reported at NAV of shares held by the Plan at year end based on independent appraisals of underlying properties. Hedge 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. The fair value of investments in certain private equity funds and real estate-closed end funds have been determined using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments.

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 fiduciary net position 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.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

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

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.

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 Plan and the Retiree Health Care Plan based on periodic time and expense studies. The Retiree Health Care Plan provides and administers health care benefits to CTA's retirees and their dependents and survivors.

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 fiduciary net position 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 fiduciary net position.

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.

Recently Issued/Adopted Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurements and Application*. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. This Statement was effective for the periods beginning after June 15, 2015. The Plan adopted this statement with its year ending December 31, 2016. Adoption of this statement resulted in additional disclosures related to the fair value measurements of Plan's investments.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

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

Recently Issued/Adopted Accounting Pronouncements *(continued)*

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 are effective for fiscal years beginning after June 15, 2016. Management has not determined what impact, if any, this GASB Statement might have on its financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). GASB 76 identifies accounting sources used to prepare state and local government financial statements in conformity with GAAP, and established a GAAP hierarchy of these resources. This Statement improves financial reporting by raising the category of GAAP Implementation Guides in the GAAP hierarchy, by emphasizing the importance of analogies to authoritative literature when an accounting event is not specified in authoritative GAAP, and by requiring the consideration of consistency with GASB Concept Statements when evaluating accounting treatments in non-authoritative GAAP. The Plan adopted this statement with its year ending December 31, 2016. The adoption had no significant impact on the Plan's financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77). GASB 77 provides financial reporting and disclosure guidance to governments that have either entered into tax abatement agreements or that have revenues affected by tax abatements entered into by another government. Governments will generally use tax abatements to encourage specific economic development that benefit either the government or its citizens by forgoing certain taxes. This statement is effective for reporting periods beginning after December 15, 2015. The Plan adopted this statement with its year ending December 31, 2016. The adoption had no significant impact on the Plan's financial statements.

In December 2015, GASB issued Statement No. 79, *Certain Investment Pools and Pool and Pool Participants* (GASB 79). GASB 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. Specific criteria address (1) the way the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. The Plan adopted this statement with its year ending December 31, 2016. The adoption had no significant impact on the Plan's financial statements.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

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

Recently Issued/Adopted Accounting Pronouncements *(continued)*

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). GASB 81 provides recognition and measurement guidance for situations in which a government is one of the beneficiaries of an irrevocable split-interest agreement. Irrevocable split-interest agreements are a type of giving by a donor to provide resources to two or more beneficiaries, including government. GASB 81 provides the recognition and reporting requirements applicable when a government is one of the parties to such an agreement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. The Plan has no items to be reported, and the Plan does not expect GASB 81 to have a significant impact on the financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses certain issues raised by GASB Statement No. 67, No. 68 and No. 73 regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early application is encouraged. Management has not determined what impact, if any, this GASB Statement might have on its financial statements.

NOTE 2 PLAN DESCRIPTION

Plan Administration: 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 Illinois state statute (40 ILCS 5/22-101). These changes can revise certain provisions of the Plan regarding the Chicago Transit Authority (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 Board of Trustees has the authority to establish or amend the contribution and benefit provisions under the Plan. 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, 2016 and 2015

NOTE 2 PLAN DESCRIPTION *(continued)*

The Plan was amended, effective January 31, 2012, to comply with applicable laws. Employees who have completed one year of continuous service are eligible for participation.

Plan Membership: At December 31, 2016 and 2015, pension plan membership consisted of the following:

	<u>2016</u>	<u>2015</u>
Retirees, disabled participants, and beneficiaries of deceased retirees currently receiving benefits	10,150	10,028
Terminated employees entitled to benefits but not yet receiving benefits	105	98
Active	<u>8,129</u>	<u>8,204</u>
	<u>18,384</u>	<u>18,330</u>

Benefits Provided: 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 had 25 years of continuous service on or before December 31, 1999, and had 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 who 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, 2016 and 2015

NOTE 2 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 their 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.

Death Benefits: 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.

Disability Allowance: An employee is eligible for a disability allowance if he or she becomes disabled after completing 10 years of continuous service or, if the 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 the disability, with a minimum benefit of \$400 per month.

Refund of Contributions: 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 or her contributions.

Deferred, Vested Retirement: 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 the separation.

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 unions. 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, is treated as a credit against the amount of required contribution, up to an amount not to exceed 6% of compensation.

During 2016, covered employees were required to contribute 11.962% of their salary to the Plan and the employer was required to contribute 23.925% of compensation less a credit for debt service of 6% with a total net employer contribution of 17.925%.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 2 PLAN DESCRIPTION *(continued)*

Starting January 1, 2013, covered employees were required to contribute 10.125% of their salary to the Plan and the employer is required to contribute 20.25% of compensation less a credit for debt service of 6% with a total net employer contribution of 14.250%. During 2012, covered employees were required to contribute 8.65% of their salary to the Plan and the employer was required to contribute 17.30% of compensation less a credit for debt service of 6%, with a total net employer contribution of 11.30%. During 2011, the employee contribution rate was 8.345% of salary to the Plan and the employer was required to contribute 16.69% of compensation less credit for debt service of 6%, with a total net employer contribution of 10.69%. During 2010, the employee contribution rate was 8.35% of salary and the required employer contribution rate was 16.69% of compensation less debt service paid of 6%, with a net employer contribution of 10.69% of compensation. For Plan year 2009, the employee contribution rate was 6% of salary and the employer contribution rate was 12% of compensation less debt service paid, with a total net employer contribution of 6% after the credit. From January 18, 2008 through December 31, 2008, covered employees were required to contribute 6% of salary to the Plan and the employer was required to contribute 12% of compensation. Prior to January 18, 2008, the CTA's contribution was 6% of total compensation and the employee contribution rate 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 2016 and 2015.

Funding Ratio: 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%.

NOTE 3 INVESTMENTS

Investment Policy: The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees. 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.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 3 INVESTMENTS *(continued)*

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.

The following was the Board of Trustees' adopted asset allocation policy as of December 31, 2016 and 2015:

<u>Asset Class</u>	<u>Target Allocation</u>	
	<u>At December 31</u>	
	<u>2016</u>	<u>2015</u>
Fixed income	17%	17%
Domestic equities	28	28
International equities	21	21
Venture capital and partnerships	10	10
Real estate	12	12
Hedge funds	7	7
Infrastructure	5	5

There were no changes to the target asset allocation between December 31, 2016 and 2015. The December 31, 2015 target allocation as shown above was amended by the Board of Trustees during 2015 to reduce the previous allocation to fixed income, domestic equities, and hedge funds and to increase the allocation to international equities, venture capital and partnerships, real estate and infrastructure.

Rate of Return: For the years ended December 31, 2016 and 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.54% and -0.27%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 4 INVESTMENT SUMMARY

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

The following table summarizes the Plan's investments by type at December 31, 2016 and 2015 (amounts in thousands):

	<u>2016</u>	<u>2015</u>
Asset-backed securities	\$ 14,497	\$ 11,226
Bank loans	36,328	-
Commercial mortgage-backed securities	4,168	5,145
Corporate bonds	43,517	44,347
Emerging market	50,476	52,288
Global aggregate	53,611	54,573
Government agency securities	4,299	4,664
Government bonds	44,225	58,057
Government mortgage-backed securities	38,882	33,581
Government-issued commercial mortgage-backed securities	1,502	873
Index-linked government bonds	1,564	3,088
Municipal/provincial bonds	1,440	1,173
Non-government-backed CMOs	1,893	1,351
Guaranteed investment contracts	50,699	80,701
U.S. equities	528,524	564,884
Foreign equities	317,115	303,445
Venture capital and partnerships	66,585	72,241
Real estate—pooled funds	228,205	210,758
Hedge funds	193,714	193,335
Short-term investments and currency positions	<u>43,875</u>	<u>32,917</u>
Total investments, at fair value	<u>\$ 1,725,119</u>	<u>\$ 1,728,647</u>

NOTE 5 DEPOSIT AND INVESTMENT RISK

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

Credit Risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations to pay interest or principal in a timely manner, or that a negative perception of the issuer's ability to make payments will cause a decline in the security's price. One measure of credit risk is the quality ratings issued by national credit rating agencies, such as Moody's Investors Service and Standard & Poor's Financial Services (S&P). The Plan does not have a formal policy in regard to aggregate credit quality of fixed-income holdings.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 5 DEPOSIT AND INVESTMENT RISK *(continued)*

The Plan utilizes external investment management firms to invest in fixed-income securities and credit quality is addressed within the guidelines of the mandate to the investment managers. Unless allowed by the mutually agreed-upon guidelines of the mandate, all securities invested in are investment grade. If a holding falls below investment grade, the manager will immediately notify the Trustees in writing of the event and describe the portfolio manager's plans for dealing with the security.

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):

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 5 DEPOSIT AND INVESTMENT RISK (continued)

December 31, 2016												
Investment Type	Total	AAA	AA	A	BBB	BB	B	CCC	CC	D	Not Rated	U.S. Gov't. Agencies
Asset-backed securities	\$ 14,497	\$ 5,818	\$ 292	\$ 89	\$ -	\$ 20	\$ 151	\$ -	\$ -	\$ -	\$ 8,127	\$ -
Bank loans	36,328	-	-	-	-	-	-	-	-	-	36,328	-
Commercial mortgage-backed securities	4,168	1,223	-	-	835	-	-	-	-	-	2,110	-
Corporate bonds	43,517	344	2,276	14,571	24,646	1,058	251	-	-	122	249	-
Emerging market	50,476	-	-	-	-	-	-	-	-	-	50,476	-
Global aggregate	53,611	-	-	-	-	-	-	-	-	-	53,611	-
Government agency securities	4,299	-	4,278	-	21	-	-	-	-	-	-	-
Government bonds	44,225	-	197	-	639	198	-	-	-	-	-	43,191
Government mortgage-backed securities	38,882	-	-	-	-	-	-	-	-	-	2,493	36,389
Government-issued commercial mortgage-backed securities	1,502	-	-	-	-	-	-	-	-	-	-	1,502
Index-linked government bonds	1,564	-	-	-	-	-	-	-	-	-	-	1,564
Municipal/provincial bonds	1,440	-	718	144	-	-	-	-	-	-	578	-
Non-government-backed CMOs	1,893	-	358	123	-	284	-	94	-	92	942	-
Guaranteed investment contracts	50,699	-	-	-	-	-	-	-	-	-	50,699	-
Total	\$ 347,101	\$ 7,385	\$ 8,119	\$ 14,927	\$ 26,141	\$ 1,560	\$ 402	\$ 94	\$ -	\$ 214	\$ 205,613	\$ 82,646

December 31, 2015												
Investment Type	Total	AAA	AA	A	BBB	BB	B	CCC	CC	D	Not Rated	U.S. Gov't. Agencies
Asset-backed securities	\$ 11,226	\$ 2,987	\$ 98	\$ 198	\$ -	\$ 139	\$ 92	\$ 199	\$ -	\$ -	\$ 7,513	\$ -
Commercial mortgage-backed securities	5,145	1,992	-	-	921	-	-	-	-	-	2,232	-
Corporate bonds	44,347	669	3,279	13,676	23,882	1,992	397	-	-	-	452	-
Emerging market	52,288	-	-	-	-	-	-	-	-	-	52,288	-
Global aggregate	54,573	-	-	-	-	-	-	-	-	-	54,573	-
Government agency securities	4,664	595	4,069	-	-	-	-	-	-	-	-	-
Government bonds	58,057	-	-	-	704	192	-	-	-	-	188	56,973
Government mortgage-backed securities	33,581	-	8	-	-	-	-	-	-	-	-	33,573
Government-issued commercial mortgage-backed securities	873	-	98	-	-	-	-	-	-	-	-	775
Index-linked government bonds	3,088	-	-	-	-	-	-	-	-	-	-	3,088
Municipal/provincial bonds	1,173	-	605	-	-	-	-	-	-	-	568	-
Non-government-backed CMOs	1,351	-	491	414	136	-	-	143	-	136	31	-
Guaranteed investment contracts	80,701	-	-	-	-	-	-	-	-	-	80,701	-
Total	\$ 351,067	\$ 6,243	\$ 8,648	\$ 14,288	\$ 25,643	\$ 2,323	\$ 489	\$ 342	\$ -	\$ 136	\$ 198,546	\$ 94,409

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 5 DEPOSIT AND INVESTMENT RISK *(continued)*

Custodial Credit Risk: The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Plan will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Deposits consist of a certificate of deposit held in the Plan's name by TNT Company; such certificate of deposit is insured by the Federal Deposit Insurance Corporation. Deposits balance at December 31, 2016 and 2015 was \$100,759 and \$100,511, respectively.

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, 2016 and 2015, deposits of \$944,640 and \$557,576, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. These amounts are included within short-term investments on the statements of fiduciary net position.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. According to the Plan's investment policy, no purchase shall be made which would cause the holding of any one issuer to exceed 10% of the investment manager's portfolio value at market. The Plan does not have a formal policy in regards to aggregate concentration of credit risk. The following investments represent 5% or more of the Plan's fiduciary net position at December 31, 2016 and 2015 (amount in thousands):

	<u>2016</u>	<u>2015</u>
Northern Trust Collective S&P 500 Index Fund	\$ 110,942	\$ 99,043

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.

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

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 5 DEPOSIT AND INVESTMENT RISK (continued)

At December 31, 2016 and 2015, the Plan had the following investments and maturities related to certain fixed-income securities (amounts in thousands):

Investment Type	2016					
	Fair Value	Investment Maturities				
		Less Than 1 Year	1+ to 6 Years	6+ to 10 Years	More Than 10 Years	
Asset-backed securities	\$ 14,497	\$ -	\$ 3,519	\$ 3,710	\$ 7,268	\$ -
Bank loans	36,328	-	-	-	-	36,328
Commercial mortgage-backed securities	4,168	-	-	-	4,168	-
Corporate bonds	43,517	2,326	23,920	9,046	8,225	-
Emerging market	50,476	-	-	-	-	50,476
Global aggregate	53,611	-	-	-	-	53,611
Government agency securities	4,299	-	2,027	2,261	11	-
Government bonds	44,225	-	17,641	13,829	12,755	-
Government mortgage-backed securities	38,882	-	947	580	37,355	-
Government-issued commercial mortgage-backed securities	1,502	-	1,502	-	-	-
Index-linked government bonds	1,564	-	702	617	245	-
Municipal/provincial bonds	1,440	-	-	-	1,440	-
Non-government-backed CMOs	1,893	-	1,074	-	819	-
Guaranteed investment contracts	50,699	2,475	36,967	-	-	11,257
Total	\$ 347,101	\$ 4,801	\$ 88,299	\$ 30,043	\$ 72,286	\$ 151,672

Investment Type	2015					
	Fair Value	Investment Maturities				
		Less Than 1 Year	1+ to 6 Years	6+ to 10 Years	More Than 10 Years	
Asset-backed securities	\$ 11,226	\$ -	\$ 3,220	\$ 618	\$ 7,388	\$ -
Commercial mortgage-backed securities	5,145	-	-	-	5,145	-
Corporate bonds	44,347	3,832	25,056	10,554	4,905	-
Emerging market	52,288	-	-	-	-	52,288
Global aggregate	54,573	-	-	-	-	54,573
Government agency securities	4,664	-	2,765	1,899	-	-
Government bonds	58,057	724	34,264	12,320	10,749	-
Government mortgage-backed securities	33,581	-	1,003	514	32,064	-
Government-issued commercial mortgage-backed securities	873	-	873	-	-	-
Index-linked government bonds	3,088	-	1,445	1,512	131	-
Municipal/provincial bonds	1,173	-	-	-	1,173	-
Non-government-backed CMOs	1,351	-	242	136	973	-
Guaranteed investment contracts	80,701	-	51,716	-	-	28,985
Total	\$ 351,067	\$ 4,556	\$ 120,584	\$ 27,553	\$ 62,528	\$ 135,846

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 5 DEPOSIT AND INVESTMENT RISK *(continued)*

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. 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 has no formal foreign currency risk policy. The Plan's exposure to foreign currency risk is as follows (amounts in thousands):

<u>Type of Investment</u>	<u>(US\$) 2016</u>	<u>(US\$) 2015</u>
<i>Short-term investments and currency position</i>		
Australian dollar	\$ 69	\$ 14
British pound sterling	20	213
Canadian dollar	57	93
Danish krone	-	2
European euro	120	11
Hong Kong dollar	197	-
Japanese yen	-	104
New Israeli shekel	155	-
New Zealand dollar	17	26
Norwegian krone	165	1
Singapore dollar	1	10
South Korean won	59	-
Swedish krona	87	83
	<u>\$ 947</u>	<u>\$ 557</u>

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 5 DEPOSIT AND INVESTMENT RISK (continued)

<u>Type of Investment</u>	<u>(US\$) 2016</u>	<u>(US\$) 2015</u>
<i>Equities</i>		
Australian dollar	\$ 3,080	\$ 3,173
British pound sterling	23,235	25,640
Canadian dollar	7,532	5,680
Danish krone	2,295	4,400
European euro	34,407	34,967
Hong Kong dollar	3,585	7,018
Japanese yen	20,770	22,944
Mexican peso	1,632	618
New Israeli shekel	564	494
New Zealand dollar	560	852
Norwegian krone	276	532
Singapore dollar	310	1,673
South Korean won	2,379	5,130
Swedish krona	1,310	2,318
Swiss franc	13,460	9,214
Thai baht	-	1,295
	<u>\$ 115,395</u>	<u>\$ 125,948</u>

Investment Management Fees

Investment management fees from equity and fixed-income managers, including most of the collective funds, are included in the investment management fees on the statements of changes in fiduciary net position. Investment management fees from funds of short-term investments, hedge, real estate, venture capital and private equity are reflected in the net investment income from such investment products. Such investment management fees are not significant to the Plan.

NOTE 6 FAIR VALUE OF INVESTMENTS

Government Accounting Standards Board Statement No. 72 (GASB 72), *Fair Value Measurements and Application*, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. GASB 72 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liabilities as of the measurement date. The three levels are defined as follows:

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 6 FAIR VALUE OF INVESTMENTS *(continued)*

Level 1: Observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 – that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Plan categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of December 31, 2016 (amount in thousands):

	12/31/2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
<i>Fixed income investments</i>				
Asset-backed securities	\$ 14,497	\$ -	\$ 9,637	\$ 4,860
Limited partnership - Bank loans	36,328	-	-	36,328
Commercial mortgage- backed securities	4,168	-	4,168	-
Corporate bonds	43,517	-	43,517	-
Government agency securities	4,299	-	4,299	-
Government bonds	45,789	-	45,789	-
Government mortgage- backed securities	38,882	-	38,882	-
Government-issued commercial mortgage-backed securities	1,502	-	1,502	-
Municipal/provincial bonds	1,440	-	1,440	-
Non-government-backed CMOs	1,893	-	1,543	350
Total fixed income investments	192,315	-	150,777	41,538
<i>Equity investments</i>				
Corporate stocks	545,731	545,731	-	-
Common and collective trusts	201,710	-	201,710	-
Total equity investments	747,441	545,731	201,710	-
<i>Private equity funds</i>				
Private equity - non-real estate focused	66,585	-	-	66,585
Real estate - closed-end funds	54,180	-	-	54,180
Total private equity	120,765	-	-	120,765
Total investments by fair value level	\$ 1,060,521	\$ 545,731	\$ 352,487	\$ 162,303

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 6 FAIR VALUE OF INVESTMENTS *(continued)*

	<u>12/31/2016</u>
<i>Investments measured at net asset value (NAV)</i>	
Emerging market debt collective trust	\$ 50,476
Global plus trust fund	53,611
Emerging markets fund	52,980
Emerging markets small-cap	45,218
Real estate funds - open-end funds	174,025
Hedge funds	<u>193,714</u>
Total investments measured at NAV	<u>570,024</u>
Total investments by fair value level	<u>\$ 1,630,545</u>
 <i>Investments not subject to fair value leveling</i>	
Guaranteed investment contracts	\$ 50,699
Short-term investments and currency positions	<u>43,875</u>
Total investments not subject to fair value leveling	<u>\$ 94,574</u>

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Equity funds and fixed income securities classified in Level 2 of the fair market hierarchy are valued using either a bid evaluation or a matrix pricing technique maintained by various pricing vendors. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Fixed income investments and private equity funds classified in Level 3 of the fair value hierarchy are securities whose stated market price is unobservable by the market place. Many of these securities are priced by the issuers of industry groups. These prices are obtained from various pricing sources by the Fund's custodian bank.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 6 FAIR VALUE OF INVESTMENTS (continued)

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

Investments Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Current Eligible)	Redemption Notice Period
Emerging market debt collective trust	\$ 50,476		Daily	1 to 5 days
Global Plus Trust Fund	53,611		Daily	1 day
Emerging markets Fund	52,980		Daily	1 to 7 days
Emerging markets Small-Cap Fund	45,218		Daily	10 days
Real estate funds open end	174,025	\$ 17,071	Quarterly	90 days
Hedge Funds	193,714		Quarterly	90 days
Total investments measured at the NAV	\$ 570,024			
Private equity - non-real estate	\$ 66,585	\$ 123,692	NA	NA
Real estate - closed-end funds	\$ 54,180	\$ 24,539	NA	NA

Emerging market debt collective trust fund. This type includes investments in 1 fund that invest in a diversified portfolio of debt securities and other permitted investments. The fair value in this type of investment have been determined using the NAV per unit of the Fund and is calculated on each business day by dividing the total value of assets, less liabilities, by the number of units outstanding.

Global plus trust fund. This fund will invest in a portfolio of fixed and floating rate debt securities and debt obligations of governments or government-related issuers worldwide as well as derivatives. Units of the Fund are issued and redeemed at NAV per unit as determined on valuation date.

Emerging markets fund. This fund invests in equity securities of issuers in emerging markets. The fair value in this type of investment have been determined using the NAV per unit of the Fund and is calculated on each business day by dividing the total value of assets, less liabilities, by the number of units outstanding.

Emerging markets small-cap fund. This fund invests primarily in equity securities of small to mid-capitalization companies. The fair value in this type of investment has been determined using the NAV per unit of the fund and is calculated on each business day by dividing the total value of assets, less liabilities, by the number of units outstanding.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 6 FAIR VALUE OF INVESTMENTS *(continued)*

Real estate funds. This type consists of 15 core, value-add, and opportunistic real estate funds. Six funds are open-end private and provide liquidity to investors quarterly, subject to each fund's ability to honor investment and redemption requests. The remaining closed-end private real estate includes finite-life pooled private market investment vehicles that are typically structured as limited partnerships, where the investors are limited partners (LPs) and the fund sponsor/manager is the general partner (GP). The LPs have limited control and limited liability. The fair value of the investments in these types have been determined using the NAV per share (or its equivalent) of the investments.

Hedge funds. This type consists of eight equity long/short, event-driven, multi-strategy, distressed deb and hedged equity fund of funds. The fair value of the investments in these types have been determined using the NAV per share (or its equivalent) of the investments.

Private equity. These investments can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The fair value of investments in certain private equity funds have been determined using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments.

NOTE 7 NET PENSION LIABILITY OF THE EMPLOYER (CTA)

The components of the net pension liability of the CTA at December 2016 and 2015 were as follows (amounts in thousands):

	<u>2016</u>	<u>2015</u>
Total pension liability	\$ 3,456,992	\$ 3,352,031
Plan fiduciary net position	<u>(1,736,369)</u>	<u>(1,743,216)</u>
CTA's net pension liability	<u>\$ 1,720,623</u>	<u>\$ 1,608,815</u>
Plan fiduciary net position as a percentage of the total pension liability	50.23%	52.00%

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 7 NET PENSION LIABILITY OF THE EMPLOYER (CTA) (continued)

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of December 31, 2016 and 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2016</u>	<u>2015</u>
Inflation	3.25%	3.25%
<i>Salary increases</i>		
Years of service		
1	9%	9%
2	11%	11%
3	16%	16%
4	5%	5%
Equal to or more than 5	4%	4%
Investment rate of return (net of pension plan investment expense, including inflation)	8.25%	8.25%

For 2016 and 2015, the mortality rates for active members and retirees and survivors were based on the RP-2000 Blue Collar Table, base year 2000 fully generational based on Scale BB. Mortality rates for Disabled Employees were based on the RP-2000 Disabled Table, base year 2000 fully generational based on Scale BB.

The actuarial assumptions used in the December 31, 2016 and 2015 valuation were based on the results of an actuarial experience study covering plan years from January 1, 2008 through December 31, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2016 and 2015 are summarized in the following table:

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 7 NET PENSION LIABILITY OF THE EMPLOYER (CTA) (continued)

Long-Term Expected Real Rate of Return

<u>Asset Class</u>	<u>2016</u>	<u>2015</u>
Fixed income	1.39%	1.45%
Domestic equities	9.38	9.27
International equities	8.31	8.62
Venture capital and partnerships	12.52	12.40
Real estate	6.82	6.91
Hedge funds	4.66	4.68
Infrastructure	6.73	6.61

Discount Rate: The discount rate used to measure the total pension liability was 8.25%. The projection of cash flows used to determine the discount rate assumed that Plan members and employer contributions will continue to follow the current funding policy. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the CTA, calculated using the discount rate of 8.25%, as well as what the CTA's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.25%) or 1 percentage point higher (9.25%) than the current rate (amounts in thousands):

<u>Net Pension Liability</u>	<u>1% Decrease (7.25%)</u>	<u>Current Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
December 31, 2016	\$2,057,959	\$1,720,623	\$1,431,879

NOTE 8 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 security, such as bond or stock prices, a market index, or commodity prices. Derivative financial instruments involve credit risk and market risk in varying degrees. The Plan did not invest in derivative instruments during 2016 and 2015.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 9 SECURITIES LENDING PROGRAM

On July 10, 1996, the Board of Trustees entered into a securities lending agreement with TNT. 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 income on the statement of changes in fiduciary net position. 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 loaned U.S. securities and 105% of the current fair value of the loaned non-U.S. securities. There are risks associated with lending securities, with the most significant being 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. At year end 2016 and 2015, the Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan.

All securities loans can be terminated on demand by either the Plan or the borrower. At December 31, 2016 and 2015, the average term of the loans was 130 days and 114, respectively. Cash collateral is invested in the lending agent's short-term investment pool, which at year-ended 2016 and 2015 had an interest sensitivity of 28 days and 29 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.

Loans outstanding as of December 31, 2016 and 2015 were as follows (amounts in thousands):

	<u>2016</u>	<u>2015</u>
Fair value of securities loaned for cash collateral	\$ 122,719	\$ 186,956
Fair value of securities loaned for non-cash collateral	<u>-</u>	<u>-</u>
Total fair value of securities loaned	<u>\$ 122,719</u>	<u>\$ 186,956</u>
Fair value of cash collateral from borrowers	\$ 125,958	\$ 192,405
Fair value of non-cash collateral from borrowers	<u>-</u>	<u>-</u>
Total fair value of collateral from borrowers	<u>\$ 125,958</u>	<u>\$ 192,405</u>

NOTE 10 UNFUNDED INVESTMENT COMMITMENTS

The Plan had unfunded commitments of approximately \$165.3 million at December 31, 2016 and \$40.5 million at December 31, 2015 in connection with real estate and private equity investments.

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 11 RISKS AND UNCERTAINTIES

The Plan invests in investment securities that 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. The changes could materially affect the amounts reported in the statement of fiduciary net position.

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 actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Because actuarial calculations reflect a long-term perspective, actuarially determined amounts are subject to continual revision, as results are compared to past expectations and new estimates made about the future. Examples include assumptions about mortality, investment returns, and future employment.

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 Plan's financial position or changes in its financial position.

NOTE 12 LEGAL PROCEEDINGS

Matthews v. Chicago Transit Authority, et al., No. 11 CH 15446 (Circuit Court of Cook County, Illinois). On April 26, 2011, Plaintiffs Jerry Matthews, Jerry Williams, Tommy Sams, Cynthia Boyne and Charles Brown, all employees and retirees of the Chicago Transit Authority, filed suit against the Chicago Transit Authority (CTA) and against the Retirement Plan for Chicago Transit Authority Employees, the Board of Trustees of the Retirement Plan for Chicago Transit Authority Employees, the Retiree Health Care Trust, and the Board of Trustees of the Retiree Health Care Trust (collectively, the "Plan and Trust Defendants"). The claims were brought on behalf of two purported classes. Class I, consisted of CTA employees who retired before January 1, 2007; Class II consists of CTA employees who were currently employed by the CTA or retired after January 1, 2007.

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 12 LEGAL PROCEEDINGS *(continued)*

Generally, the plaintiffs challenged the reduction of health care benefits for retirees in the 2007 Collective Bargaining Agreement (CBA) governing CTA employees, and the related provisions of 40 ILCS 5/22-101B, which require retirees to pay up to 45% of the cost of their health care benefits.

On May 5, 2016, the Illinois Supreme Court affirmed the appellate court's judgment in part and reversed in part. 2016 IL 117638. The Supreme Court determined that the Class II plaintiffs, the current employees and those that retired after January 1, 2007, lacked standing to challenge the 2007 CBA and affirmed the dismissal of all of their claims. The Supreme Court found that the Class I plaintiff, Jerry Williams, who retired prior to the expiration of the 2004 CBA had standing to challenge the modification to health care benefits pursuant to the 2007 CBA. The Supreme Court also found that the Class I plaintiff sufficiently stated a cause of action against the Plan and Trust Defendants for breach of contract, for declaratory judgment, and for violation of the pension protection clause because the 2004 CBA constituted an enforceable, vested right as to those who retired before the expiration of that agreement. Finally, the Supreme Court held that the retired employees were not entitled to pursue their claim of promissory estoppel against the CTA because they sought to enforce an obligation that went beyond the terms of the 2004 CBA. The Supreme Court remanded the case to the Circuit Court for further proceedings.

The case is now back in the Circuit Court. On May 31, 2017, Plaintiffs were granted leave to file a First Amended Complaint, which removed named plaintiffs whose claims were dismissed, removed CTA as a defendant, and largely removed dismissed claims. The First Amended Complaint lists Jerry Williams as the first named plaintiff, and adds two retiree named plaintiffs, Stewart Cooke and Larry Whitehead. The case is now captioned *Williams et al. v. Retirement Plan for Chicago Transit Authority Employees, et al.*

The Retirement Plan for Chicago Transit Authority Employees and the Board of Trustees of the Retirement Plan for Chicago Transit Authority Employees filed a motion to dismiss a portion of the First Amended Complaint, specifically the allegations challenging the composition of the Retirement Plan Board, and answered the remaining counts. The Retiree Health Care Trust and the Board of Trustees of the Retiree Health Care Trust Defendants also filed a motion to dismiss the First Amended Complaint for failure to state a claim. Defendants' motions to dismiss are being briefed, no hearing date has been set. The parties are engaged in discovery. The Retirement Plan is vigorously defending the matter. At this time, management is unable to determine the amount or range of any potential loss in the event of an unfavorable outcome.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 13 PRIORITIES AT PLAN TERMINATION

While the CTA intends to maintain the Plan permanently, should the Plan terminate, the Plan's fiduciary net position held in trust for pension benefits 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 14 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, which may adversely affect the Plan's tax status.

NOTE 15 OPERATING LEASE

During 2013, the Plan entered into a new lease agreement for office space, which expires on December 31, 2028. Concurrently with the execution of the lease, the Plan has deposited \$100,000 in the form of an irrevocable letter of credit. At December 31, 2016, the remaining future rental lease payments are as follow (amounts in thousands):

<u>Year</u>	<u>Amount</u>
2017	\$ 81
2018	83
2019	85
2020	87
2021	89
Thereafter	<u>637</u>
	<u>\$ 1,062</u>

Rent and utilities paid by the Plan were \$107 in 2016 and \$99 in 2015. The amount of rent paid for 2016 and 2015 represents 75% of the total amount paid by the Plan. The other 25% is reimbursed by the CTA Retiree Health Care Plan based on management's expense allocation for the shared office space.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 16 SUBSEQUENT EVENTS

The IRS issued a letter of determination dated March 8, 2017, stating that the Plan meets the requirements of a governmental plan under Section 414(d) of the Code. Such determination was made on the condition that the Plan adopt two proposed amendments. The first proposed amendment is to add a new subparagraph to the first paragraph of Rule No. 14, in order to update the Plan's definition of compensation to include differential wage payments to comply with the HEART Act. The second proposed amendment is to revise the second sentence of the last paragraph of Rule No. 30, in order to explicitly provide that all distributions from the Plan will be made in accordance with Income Tax Regulations Sections 1.401(a)(9)-2 through 1.401(a)(9)-9. Both amendments were approved by the Board on the monthly meeting dated May 25, 2017.

During the Board meeting dated September 28, 2017, the Board approved an increase of employee and employer contributions. Starting January 1, 2018, covered employees are required to contribute 12.010% of their salary to the Plan and the employer is required to contribute 18.019%, which is net of a credit for debt service on pension obligation bonds.

REQUIRED SUPPLEMENTARY INFORMATION

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Schedule of Changes in the Employer's Net Pension Liability
and Related Ratios
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Total pension liability</i>			
Service cost	\$ 50,111,555	\$ 51,357,649	\$ 49,066,078
Interest	269,898,773	264,578,983	259,592,822
Difference between expected and actual experience	51,517,655	13,082,408	-
Benefit payments, including refunds of member contributions	<u>(266,566,974)</u>	<u>(260,141,627)</u>	<u>(246,037,562)</u>
Net change in total pension liability	104,961,009	68,877,413	62,621,338
Total pension liability - beginning	<u>3,352,031,110</u>	<u>3,283,153,697</u>	<u>3,220,532,359</u>
Total pension liability - ending	<u>\$ 3,456,992,119</u>	<u>\$ 3,352,031,110</u>	<u>\$ 3,283,153,697</u>
<i>Plan's fiduciary net position</i>			
Contributions - employer	\$ 83,855,066	\$ 82,799,918	\$ 82,268,465
Contributions - member	59,560,473	58,993,284	58,566,279
Net investment income	118,613,412	8,230,003	71,524,132
Benefit payments, including refunds of member contributions	(266,566,974)	(260,141,627)	(246,037,562)
Administrative expense	<u>(2,309,231)</u>	<u>(2,577,197)</u>	<u>(3,123,365)</u>
Net change in plan fiduciary net position	(6,847,254)	(112,695,619)	(36,802,051)
Plan's fiduciary net position - beginning	<u>1,743,216,432</u>	<u>1,855,912,051</u>	<u>1,892,714,102</u>
Plan's fiduciary net position - ending	<u>\$ 1,736,369,178</u>	<u>\$ 1,743,216,432</u>	<u>\$ 1,855,912,051</u>
Net pension liability - ending	<u>\$ 1,720,622,941</u>	<u>\$ 1,608,814,678</u>	<u>\$ 1,427,241,646</u>
Plan's fiduciary net position as a percentage of the total pension liability	50.23%	52.00%	56.53%
Covered-employee payroll	\$ 575,443,885	\$ 573,548,196	\$ 564,827,965
Employer's net pension liability as a percentage of covered-employee payroll	299.01%	280.50%	252.69%

The above information is required beginning in 2014. Information for the next seven years will be presented in future years.

See accompanying Independent Auditor's Report.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Schedule of Employer Contributions

(Amounts in thousands)

(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Employer portion of required contribution contribution on a statutory basis *	\$ 82,001	\$ 81,731	\$ 80,488	\$ 102,800	\$ 61,982	\$ 55,976	\$ 56,474	\$ 34,030	\$ 53,473	\$ 51,418
Actual employer contributions	<u>83,855</u>	<u>82,800</u>	<u>82,268</u>	<u>79,518</u>	<u>62,788</u>	<u>60,318</u>	<u>56,216</u>	<u>41,448</u>	<u>1,165,947</u>	<u>25,038</u>
Contribution deficiency (excess)	<u>\$ (1,854)</u>	<u>\$ (1,069)</u>	<u>\$ (1,780)</u>	<u>\$ 23,282</u>	<u>\$ (806)</u>	<u>\$ (4,342)</u>	<u>\$ 258</u>	<u>\$ (7,418)</u>	<u>\$ (1,112,474)</u>	<u>\$ 26,380</u>
Covered-employee payroll	\$ 575,444	\$ 573,548	\$ 564,827	\$ 550,616	\$ 548,515	\$ 541,354	\$ 528,288	\$ 567,173	\$ 594,139	\$ 571,314
Contributions as a percentage of covered- employee payroll	14.25%	14.25%	14.25%	18.67%	11.30%	10.34%	10.69%	6.00%	9.00%	9.00%

* Actuarially determined contributions

See accompanying Independent Auditor's Report.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**
Schedule of Investment Returns
(Amounts in thousands)
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	6.54%	(0.27)%	4.70%

The above information is required beginning in 2014. Information for the next seven years will be presented in future years.

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Notes to Required Supplementary Information
(Unaudited)

Actuarial Methods and Assumptions

The total pension liability as of December 31, 2016 was determined by rolling forward the total pension liability as of January 1, 2015 to December 31, 2016 using the following actuarial methods and assumptions, applied to all periods included in the measurement.

Valuation date:	January 1, 2016
Actuarial cost method:	Entry Age Normal – Level Percentage of Pay
Amortization method:	For pension expense, the difference between expected and actual liability experience and changes of assumptions are amortized over the average of the expected remaining service lives of all members. The difference between projected and actual earnings is amortized over a closed period of five years.
Inflation rate:	3.25%
Projected salary increases:	9% for 1 year of service, 11% for 2 years of service, 16% for 3 years of service, 5% for 4 years of service, and 4% thereafter.
Investment rate of return:	8.25%
Retirement age:	Normal retirement age is 65
Mortality:	Active – RP2000 Blue Collar Table, base year 2000 fully generational based on Scale BB. Retirees & Survivors – RP2000 Blue Collar Table, base year 2000 fully generational based on Scale BB.
Experience study:	The actuarial assumptions used were based on the results of an actuarial experience study covering plan years from January 1, 2008 through December 31, 2012.

See accompanying Independent Auditor's Report.

OTHER INFORMATION

**RETIREMENT PLAN FOR CHICAGO TRANSIT
AUTHORITY EMPLOYEES**

Schedule of Investment and Administrative Expenses
For the Years Ended December 31, 2016 and 2015
(Amounts in thousands)

	<u>2016</u>	<u>2015</u>
INVESTMENT EXPENSES		
Investment management fees	\$ 6,117	\$ 7,125
Investment consultant	325	325
Trustee fees	322	319
Reporting and monitoring	<u>28</u>	<u>28</u>
Total investment expenses	<u>\$ 6,792</u>	<u>\$ 7,797</u>
ADMINISTRATIVE EXPENSES		
<i>Personal services</i>		
Staff salaries and fringe benefits	<u>\$ 1,060</u>	<u>\$ 1,084</u>
<i>Professional services</i>		
Actuarial	69	54
Auditing	90	76
Data processing	108	178
Legal	420	649
Benefit payments administration	259	258
Disability administration	<u>338</u>	<u>352</u>
	<u>1,284</u>	<u>1,567</u>
<i>Communication</i>		
Stationery and printing	15	6
Telephone	6	6
Postage and messenger	<u>15</u>	<u>8</u>
	<u>36</u>	<u>20</u>
<i>Office and equipment</i>		
Office space	104	96
Utilities	3	3
Equipment	6	5
Equipment rental	<u>11</u>	<u>10</u>
	<u>124</u>	<u>114</u>
<i>Insurance</i>		
Fiduciary and other insurance	<u>78</u>	<u>78</u>
<i>Miscellaneous</i>		
Seminars and travel	21	8
Supplies	15	13
Legal research	-	2
Court reporting	12	17
Seminars for retirees	6	4
Settlement agreement – legal cost	-	15
Other	<u>10</u>	<u>7</u>
	<u>64</u>	<u>66</u>
Total administrative expenses	<u>\$ 2,646</u>	<u>\$ 2,929</u>

See accompanying Independent Auditor's Report.

