

RETIREE HEALTH CARE PLAN

**Financial Statements and Supplementary Information
For the Years Ended December 31, 2015 and 2014
With Independent Auditor's Report**



MITCHELL TITUS
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RETIREE HEALTH CARE PLAN
For the Years Ended December 31, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Retiree Health Care Plan

Report on the Financial Statements

We have audited the accompanying financial statements of the Retiree Health Care Plan (the Plan), which comprise the statements of plan net position as of December 31, 2015 and 2014, the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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, 2015 and 2014, 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 schedules of funding progress and contributions from employer and other contributing entities on pages 3 through 9 and pages 27 through 28, respectively, 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.

September 29, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Management's discussion and analysis of the Retiree Health Care Plan (the Plan) provides an overview and analysis of the financial statements of the Plan, including highlights and a discussion of current activities for the years ended December 31, 2015 and 2014. For more detailed information regarding the Plan's financial activities, readers should also 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 accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB) and are described below:

- *The Statement of Plan Net Position* presents the Plan's assets and liabilities and the resultant net position held in trust for plan benefits at year end. This statement reflects the Plan's investments at fair value as well as receivables and liabilities.
- *The Statement of Changes in Plan 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, if any, as well as benefit payments and administrative expenses.
- *The Notes to Financial Statements* provide additional information for a better understanding of the data provided in the financial statements. They explain the purpose of the Plan, significant accounting policies, investment details and related risks, and other relevant information.

The required supplementary information consists of a Schedule of Funding Progress, a Schedule of Contributions from Employer and Other Contributing Entities, as well as the related notes to discuss actuarial assumptions and methods. Such schedules provide the historical trend information for the Plan since its adoption of GASB Statement No. 43 to aid in the analysis of the funded status of the Plan and the progress being made in accumulating sufficient assets to pay benefits when due.

- *The Schedule of Funding Progress* contains actuarial valuations of the status of the Plan in an ongoing as well as historical basis. Actuarial liabilities in excess of the actuarial value of assets indicate that insufficient assets have been accumulated to fund future benefits of current members and retirees. Conversely, actuarial value of assets in excess of actuarial accrued liabilities indicates that the Plan is overfunded.
- *The Schedule of Contributions from Employer and Other Contributing Entities* contains historical trend information of employer contributions and other contributing entities. It shows the value of total annual contributions the employer must pay as determined under the parameters in GASB Statement No. 43 and the related percentage the employer has contributed to meet its requirement.
- *The Notes to Required Supplementary Information* describe 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 Plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Financial Highlights

- Public Act 094-0839, which passed in June 2006, separated the funding for retiree health care benefits from funding for pension benefits by January 1, 2009.
- Public Act 095-0708, which was signed by the Governor on January 18, 2008, established the Retiree Health Care Trust (RHCT, or the Plan) and provided for funding and benefit changes to the retiree health care benefits. Beginning January 18, 2008, all Chicago Transit Authority (CTA) employees were required to contribute 3% of their compensation into the newly formed RHCT. The legislation also required changes to eligibility for health care benefits from the RHCT. Contributions from retirees, dependents, and survivors may not exceed 45% of the total cost of their benefits under the Plan. Public Act 095-0708 also authorized the CTA to issue pension obligation bonds to fund the RHCT. After the bond funding, the legislation provides that the CTA has no further obligation to provide funding for health care benefits to eligible retirees and their dependents and survivors. During 2015, 2014 and 2013, CTA employees' contributions remained at 3% of their compensation.
- The RHCT was established on May 12, 2008. Approximately \$529 million from bond proceeds were deposited in the RHCT in August 2008.
- During 2009, the RHCT's Board of Trustees developed the plan design and eligibility rules for retirees, which were required pursuant to Public Act 095-0708, and entered into contracts with health care providers to provide benefits to retirees, dependents, and surviving spouses. In May 2009, the RHCT held its first open enrollment for retirees, dependents, and survivors. All who elected coverage with RHCT began on July 1, 2009.
- Retiree and employee contributions totaled \$39.2 million, \$39.4 million, and \$37.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.
- Net investment income was \$(4.5) million, \$24.6 million, and \$93.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.
- The Plan's net position totaled \$716.9 million, \$732.6 million, and \$722.9 million at December 31, 2015, 2014 and 2013, respectively.
- The funded ratio of the Plan was 131.1%, 134.0%, and 122.9% at December 31, 2015, 2014 and 2013, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Plan Net Position

The following schedule presents the Plan's net position:

Plan Net Position
(in millions)
As of December 31, 2015, 2014 and 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015-2014 Change</u>	
				<u>\$</u>	<u>%</u>
Investments, at fair value	\$ 724.3	\$ 743.1	\$ 732.5	\$ (18.8)	(2.5)%
Employee contributions receivable	-	0.3	0.3	(0.3)	(100.0)
Retiree contributions receivable	1.4	1.5	1.3	(0.1)	(6.7)
Securities sold but not received	1.9	1.8	1.8	0.1	5.6
Accrued interest and dividends	1.8	1.7	2.3	0.1	5.9
Other receivables	0.2	0.1	0.2	0.1	100.0
Prepaid expense	1.3	1.6	-	(0.3)	(18.8)
Total assets	730.9	750.1	738.4	(19.2)	
Accounts payable	3.9	4.7	4.5	(0.8)	(17.0)
Securities purchased but not paid	10.1	12.8	11.0	(2.7)	(21.1)
Total liabilities	14.0	17.5	15.5	(3.5)	
Plan net position	<u>\$ 716.9</u>	<u>\$ 732.6</u>	<u>\$ 722.9</u>	<u>\$ (15.7)</u>	<u>(2.1)%</u>

Plan net position decreased by \$15.7 million, or 2.1%, at December 31, 2015 compared to the prior year, primarily due to market conditions, which decreased investments at year end by \$18.8 million rather than an increase of \$10.6 million at December 31, 2014. Receivables decreased by \$0.4 million at December 31, 2015, mainly due to decrease in the employee contributions receivable. Liabilities decreased by \$3.5 million at December 31, 2015, caused by decreases in accounts payable and pending purchases of securities at year end.

Plan net position increased by \$9.7 million, or 1.3%, at December 31, 2014 compared to the prior year, primarily due to market conditions, which increased investments at year end by \$10.6 million rather than \$78.3 million at December 31, 2013. Receivables decreased by \$0.5 million at December 31, 2014, mainly due to decreases in the accrued interest and dividends. Liabilities increased by \$2.0 million at December 31, 2014, caused by increases in accounts payable and pending purchases of securities at year end.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Changes in Plan Net Position

The following schedule presents changes in the Plan's net position during the years:

Changes in Plan Net Position
(in millions)
For the Years Ended December 31, 2015, 2014, and 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015-2014 Change</u>	
				<u>\$</u>	<u>%</u>
Additions					
Employee contributions	\$ 20.7	\$ 19.9	\$ 19.9	\$ 0.8	4.0%
Retiree contributions	18.5	19.5	17.3	(1.0)	(5.1)
Medicare retiree drug subsidy program	-	-	0.1	-	
Rebates and reimbursements related to claims	0.5	0.2	0.3	0.3	150.0
Net investment income	(4.5)	24.6	93.3	(29.1)	(118.3)
Total additions	<u>35.2</u>	<u>64.2</u>	<u>130.9</u>	<u>(29.0)</u>	
Deductions					
Medical claims paid to providers	18.2	23.5	23.9	(5.3)	(22.6)
Medical premium payments to insurance companies	27.8	26.0	23.3	1.8	6.9
Dental premium payments to insurance companies	1.9	1.4	1.4	0.5	35.7
Claim administration fee	1.3	1.3	1.5	-	
Administrative expenses	1.6	2.3	1.1	(0.7)	(30.4)
Total deductions	<u>50.8</u>	<u>54.5</u>	<u>51.2</u>	<u>(3.7)</u>	
Net (decrease) increase	<u>\$ (15.6)</u>	<u>\$ 9.7</u>	<u>\$ 79.7</u>	<u>\$ (25.3)</u>	<u>(260.8)%</u>

Total additions of \$35.2 million in 2015 were significantly lower than the amounts in 2014, primarily due to a net investment loss of \$4.5 million in 2015 compared to net investment gain of \$24.6 million in 2014. This represents a decrease of \$29.1 million, or 118.3%, in 2015 compared to 2014.

Total additions of \$64.2 million in 2014 were significantly lower than the amounts in 2013, primarily due to a net investment gain of only \$24.6 million in 2014 compared to net investment gain of \$93.3 million in 2013. This represents a decrease of \$68.7 million, or 73.6%, in 2014 compared to 2013.

Deductions for medical claims and administration fees for 2015 were \$50.8 million compared to \$54.5 million in 2014. Deductions decreased in 2015 by \$3.7 million, mainly due to a decrease in the medical claims paid to providers of \$5.3 million, or 22.6%, in 2015 compared to 2014. In 2015, there was a change in the Medicare Advantage Plan offered. Premium payments to insurance companies continued to increase in 2015 as more retirees enrolled into the Plan. Administrative expenses were \$0.7 million lower in 2015 compared to 2014 due to a decrease in legal fees and actuarial services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Changes in Plan Net Position (*continued*)

Deductions for medical claims and administration fees for 2014 were \$54.5 million compared to \$51.2 million in 2013. Deductions increased in 2014 by \$3.3 million, mainly due to an increase in the medical premium payments to insurance companies of \$2.7 or 11.6% in 2014 compared to 2013. In 2014, premium payments to insurance companies continued to increase as more retirees enrolled into the Plan. Administrative expenses were \$1.2 million higher in 2014 compared to 2013 due to an increase in legal fees and the first payment of Affordable Care Act Transitional Fee in 2014.

Plan Membership

The following table presents the changes in Plan membership as of December 31, 2015, 2014 and 2013:

	2015	2014	2013	Change	2015-2014 %
Retirees and beneficiaries receiving benefits	8,944	9,028	9,247	(84)	(0.9)%
Active employees	10,234	10,519	10,684	(285)	(2.7)
Terminated (inactive members) employees entitled to benefits or refunds of contributions	115	99	97	16	16.2
Total	19,293	19,646	20,028	(353)	(1.8)%

Funding Results on the Retiree Health Care Trust and Plan

Section 22-101B(b)(3)(iii) of the Illinois Pension Code requires the Board of Trustees of the RHCT to make an annual assessment of the funding levels of the RHCT and to submit a report to the Auditor General regarding the assessment. The purpose of the RHCT is to fund the expenses of the Retiree Health Care Plan. If the actuarial present value of projected benefits exceeds the actuarial present value of projected contributions and trust income plus assets in excess of the statutory reserve, then a plan should be implemented by management of the RHCT to increase the contribution levels from employees, retirees, dependents, or survivors; to decrease benefit levels or both, which is projected to cure the shortfall over a period of not more than 10 years. At December 31, 2015, 2014 and 2013, the funded ratio of the Plan was 131.1%, 134.0 % and 122.9%, respectively. The decrease in the funding ratio at December 31, 2015 was primarily due to assets being less than expected; changes in the covered population; change to per capita claims, based on updated claim experience, along with changes to retiree contribution rates; and plan changes. Plan changes made in 2016 include adding a Medicare HMO option. The increase in the funding ratio at December 31, 2014 was primarily due to changes in the covered population; change to per capita claims, based on updated claim experience, along with changes to retiree contribution rates; and plan changes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Investment Activities

The Plan's net position held for investment was \$724.3 million at year-end 2015, a decrease of \$18.8 million compared to 2014, with a total Plan rate of return of negative 0.2%. Domestic equity investment managers returned a negative 0.1%, while non-U.S. equity investment managers returned a negative 1.8%, and total fixed income returned a negative 0.1% for the year ended December 31, 2015. The Plan's net position held for investment was \$743.1 million at year-end 2014, an increase of \$10.6 million over 2013, with a total Plan rate of return of 3.9%. Domestic equity investment managers returned 6.0%, while non-U.S. equity investment managers returned a negative 5.3%, and total fixed income returned 5.7% for the year ended December 31, 2014.

During 2014, new investment asset allocation was approved by the Board of Trustees as recommended by our Investment Consultants; therefore, the Plan began to move assets in-line with the newly adopted policy target. The restructuring of the asset allocation in the Plan was completed in 2015. Investment asset allocation for 2015 and 2014 was core fixed income 30%, non-U.S. fixed income 5%, emerging markets debt 5%, U.S. equity 35%, total non-U.S. equity 15%, and real estate 10%. During 2015 and 2014, the Plan's investment asset allocation stayed within its target asset allocation ranges.

Investment Return

For the Years Ended December 31, 2015, 2014 and 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total Health Care Trust	(0.2)%	3.9%	15.4%
Benchmark portfolio	(0.3)	6.6	13.4
Domestic equities	(0.1)%	6.0%	36.7%
Benchmark portfolio (Russell 3000 Growth)	0.5	12.6	33.6
International equities	(1.8)%	(5.3)%	19.0%
Benchmark (MSCI EAFE)	(5.7)	(3.9)	22.8
Domestic fixed income	0.5%	5.9%	(1.3)%
Benchmark portfolio (Barclays U.S. Aggregate)	0.6	6.0	(2.0)
International fixed income	(2.2)%	5.0%	(3.9)%
Benchmark portfolio (Citigroup Non-U.S. Govt. Bond)	(3.6)	(0.5)	(4.6)

Subsequent Event

Starting January 1, 2017, non-Medicare retiree premium contribution amounts were increased. The increments varied based on the retiree's years of service.

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
Retiree Health Care Trust
55 West Monroe Street, Suite 1950
Chicago, Illinois 60603

RETIREE HEALTH CARE PLAN
 Statements of Plan Net Position
 As of December 31, 2015 and 2014

	2015	2014
ASSETS		
Investments, at fair value	\$ 724,315,680	\$ 743,135,906
<i>Receivables</i>		
Employee contributions receivable	8,023	354,167
Retiree contributions receivable	1,427,091	1,500,179
Accrued interest and dividends	1,793,925	1,687,312
Securities sold but not received	1,924,181	1,701,727
Other receivables	191,180	132,167
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Total receivables	5,344,400	5,375,552
Prepaid expense	1,290,768	1,637,007
	<hr/>	<hr/>
Total assets	730,950,848	750,148,465
LIABILITIES		
Accounts payable	3,877,787	4,759,918
Securities purchased but not paid	10,116,959	12,788,842
	<hr/>	<hr/>
Total liabilities	13,994,746	17,548,760
	<hr/>	<hr/>
Plan net position held in trust for other post-employment benefits	\$ 716,956,102	\$ 732,599,705
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The accompanying notes are an integral part of these financial statements.

RETIREE HEALTH CARE PLAN

Statements of Changes in Plan Net Position

For the Years Ended December 31, 2015 and 2014

	2015	2014
ADDITIONS		
<i>Contributions</i>		
Employee contributions	\$ 20,681,831	\$ 19,965,151
Retiree contributions	18,533,549	19,538,565
Rebates and reimbursements related to claims	537,682	272,884
 Total contributions	 39,753,062	 39,776,600
 <i>Investment income</i>		
Net (depreciation) appreciation in fair value of investments	(17,963,425)	12,191,980
Interest	10,093,735	10,942,285
Dividends	6,557,691	5,208,522
 Net investment income before investment activity expenses	 (1,311,999)	 28,342,787
 <i>Investment activity expenses</i>		
Investment management fees	(2,834,241)	(3,283,878)
Investment consulting fees	(165,000)	(184,875)
Custodian fees	(107,835)	(154,620)
Reporting, monitoring and other investment fees	(111,728)	(140,451)
 Total investment activity expenses	 (3,218,804)	 (3,763,824)
 Net investment income	 (4,530,803)	 24,578,963
 Total additions	 35,222,259	 64,355,563
 DEDUCTIONS		
Medical claims paid to providers	18,193,994	23,537,590
Medical premium payments to insurance companies	27,828,071	26,044,309
Dental premium payments to insurance companies	1,981,043	1,418,774
Claim administration fees	1,287,322	1,339,874
 Administrative expenses	 49,290,430	 52,340,547
 Total deductions	 1,575,432	 2,343,902
 Net (decrease) increase	 50,865,862	 54,684,449
 Net position held in trust for other post-employment benefits	 (15,643,603)	 9,671,114
 Beginning of year	 732,599,705	 722,928,591
End of year	 \$ 716,956,102	 \$ 732,599,705

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

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Pursuant to 40 ILCS 5/22-101B, as amended by Public Act 095-0708 on January 18, 2008, the Chicago Transit Authority (CTA) established the Retiree Health Care Trust (RHCT) and Plan, effective May 12, 2008. The primary responsibility of the RHCT is to provide funding to the Retiree Health Care Plan (the Plan), which provides and administers health care benefits to CTA's retirees and their dependents and survivors. The financial information of the Trust is incorporated into the Plan's financial statements.

CTA intends for the RHCT to satisfy the requirements of Section 115 of the Internal Revenue Code of 1986 (the Code), as amended. A private letter ruling regarding the exclusion of the RHCT's income from gross income under Section 115 was received from the Internal Revenue Service (IRS).

Under Public Act 095-0708 (the Act), Section 22-101B, after the establishment of the RHCT and starting January 1, 2009, and not later than July 1, 2009, the CTA no longer has any obligation to provide health care benefits to current or future retirees and their dependents or survivors. The retiree health care benefits are provided by the Retiree Health Care Plan.

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 RHCT and Plan have no component units and are not a component unit of another entity.

Basis of Accounting

The Plan's financial statements are prepared on the accrual basis of accounting. Employee and retiree contributions are recognized when due. Benefits are recognized as deductions when paid; expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

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

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 and the Plan's net position at the date of the financial statements, the funded status of the Plan, the actuarial information included in the required supplementary information as of the actuarial valuation date, the changes in the Plan's 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.

Investments

The Plan is authorized to invest in bonds, notes, and other direct obligations of the U.S. government and U.S. government agencies; certain common stocks, and convertible bonds of U.S. companies; equity securities of foreign companies that trade in the U.S. financial markets through American Depository Receipts (ADR); short-term investment funds; commingled funds composed of guaranteed investment contracts, bank investment contracts, and other stable value instruments; mortgage securities, venture capital, and partnerships.

The Plan does not have a formal 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

Investments are reported at fair value. 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. Venture capital and partnerships do not have established market prices and are reported at estimated NAV by money managers.

Security Transactions

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

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Income

Interest income is recognized on an accrual basis when earned. Dividend income is recognized on the ex-dividend date.

Furniture and Office Equipment

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

Administrative Expenses

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

Recently Issued Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement 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 is effective for the periods 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, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, and Statement No. 50, *Pension Disclosures*. Statement No. 74 requires defined benefit OPEB plans to issue a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement improves financial reporting of OPEB plans through enhanced note disclosures and schedules of required supplementary information about the components of the net OPEB liability and related ratios, the OPEB plan's fiduciary net position as a percentage of the total OPEB liability and significant assumptions and other inputs used to measure the total OPEB liability as well as the sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rate. In addition, all defined benefit OPEB plans are required to present the annual

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

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

Recently Issued Accounting Pronouncements *(continued)*

money-weighted rate of return on OPEB plan investments for each of the most recent 10 fiscal years in the required supplementary information. Statement No. 74 is effective for fiscal years beginning after June 15, 2016. Early application is encouraged. Management has not determined the impact this GASB Statement will have on its financial statements.

NOTE 2 PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

Plan and Trust Description

The following brief description of the Plan and RHCT is provided for general information purposes only. Participants should refer to the Plan and RHCT documents, as amended, for complete information.

The Plan is a single-employer, defined-benefit post-employment health care plan. The Plan provides medical, prescription drug, and dental benefits to eligible retirees and their dependents and survivors starting not later than July 1, 2009, but no earlier than January 1, 2009. Dental benefits prior to age 65 are also available at cost.

The RHCT and Plan are administered by a seven-member Board of Trustees composed of members appointed by the CTA, the Amalgamated Transit Union (ATU) and the Regional Transportation Authority. The Board of Trustees of the RHCT and Plan has the authority to establish or amend the contribution and benefit provisions under the Plan. The Plan is classified as a governmental plan and, therefore, is exempt from certain provisions of the Employee Retirement Income Security Act of 1974, as amended.

The Act, enacted on January 18, 2008, provides funding for the retiree health care benefits and makes substantive changes to the retirees' health care benefits. Under the Act, CTA issued pension obligation bonds and deposited approximately \$528,800,000 into the RHCT in August 2008. Funding for retiree health care benefits comes from employees' contributions, retirees' contributions, and investment earnings in the RHCT.

The RHCT was required to assume financial responsibility for retiree health care benefits no later than July 1, 2009, and the CTA has no further responsibility to fund the retiree health care costs. The Board of Trustees of the RHCT is required by the Act to make an annual assessment of the funding levels of the RHCT and has the authority to increase members' contributions, decrease benefits, or a combination of both, to eliminate any funding shortfall within 10 years.

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

NOTE 2 PLAN DESCRIPTION AND CONTRIBUTION INFORMATION *(continued)*

Plan and Trust Description *(continued)*

Major changes to the Plan's benefits under the Act include the following:

- All active CTA employees are required to contribute 3% of their compensation to the RHCT. This rate is subject to change every year and it is subject to a 45% test according to Section 22-101B (b)(5) of the Illinois Pension Code. Total contributions from members taken together cannot exceed 45% of total retiree health care costs in the prior plan year.
- Beginning July 1, 2009, retirees were required to make contributions for their health care coverage.
- To be eligible for retiree health care benefits, the Act requires that a CTA employee must be at least 55 years old and have at least 10 continuous years of service if he or she retires after January 18, 2008. The Board of Trustees increased the minimum number of years required to get health care benefits to 20 years. As a result, to be eligible for retiree health care benefits, a CTA employee must be at least 55 years old and have at least 20 years of service.

However, participants are entitled to health care benefits from the Plan if years of service are equal to or higher than 25 if they were hired prior to September 5, 2001, regardless of age, as long as retirement occurs prior to the full execution of the next collective bargaining agreement (CBA) between CTA and Locals 241 and 308 of the Amalgamated Transit Union. The current CBA expired on December 31, 2012.

- Effective January 1, 2013, the Plan changed its benefits for participants who are eligible for Medicare by providing two new Medicare Advantage benefit options to them. For additional information regarding benefits, coverage, services and deductible, please refer to the enrollment guide.

Membership

At December 31, 2015 and 2014, the number of participants was as follows:

	2015	2014
Retirees and beneficiaries receiving benefits	8,944	9,028
Terminated plan members entitled to but not yet receiving benefits	115	99
Active participants	<u>10,234</u>	<u>10,519</u>
	<u>19,293</u>	<u>19,646</u>

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

NOTE 2 PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (continued)

Contributions

During 2015 and 2014, retiree health care benefits were funded through active employee contributions, retiree contributions, investment return on assets, rebates, and other reimbursements.

The Act, 095-0708, effective January 18, 2008, authorized the CTA to issue bonds and notes in the aggregate amount of \$639,680,000, of which net proceeds of \$528,800,000 were deposited into the RHCT in August 2008 as advance funding.

During 2015 and 2014, active employees were required to contribute 3% of their salary to the RHCT.

Funded Status and Funding Progress

According to the Act, the Plan should maintain an appropriate funding reserve level that should not be less than the amount of incurred and unreported claims plus 12 months of expected claims and administrative expenses. An annual assessment of the funding level is required to be submitted to the Auditor General at least 90 days prior to the end of the fiscal year.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

RETIREE HEALTH CARE PLAN

Notes to Financial Statements

December 31, 2015 and 2014

NOTE 2 PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (continued)

Funded Status and Funding Progress (continued)

The funded status of the Plan as of December 31, 2015 and 2014 was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected-Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/15	\$716,956,102	\$546,751,665	\$170,204,437	131.1%	\$662,684,711	(25.7)%
12/31/14	732,599,705	546,685,683	(185,914,022)	134.0	632,394,411	(29.4)

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 healthcare cost trends. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date:	December 31, 2015 and 2014
Actuarial cost method:	Projected-unit credit
Amortization method:	Level dollar, open
Remaining amortization period:	30 years
Asset valuation method:	Market value

Actuarial assumptions

Investment rate of return:	7.00% for 2015 and 2014
Projected salary increases:	For 2015 and 2014 valuations: 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
Inflation rate	3.25% for 2015 and 2014

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

NOTE 2 PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (continued)

Funded Status and Funding Progress (continued)

Medical and prescription drug cost trend rate:

For 2015 valuation: HMO and PPO (pre-Medicare) – 7.7% for 2016, graded to 5% over 8 years; MAPD (Medicare) – 0.0% for 2016, then 8.25% graded to 5% over 7 years, with an additional 10% in 2017 for MAPD renewal

For 2014 valuation: HMO and PPO (pre-Medicare) – 8% for 2015, graded to 5% over 6 years; MAPD (Medicare) – 4.25% for 2015, then 8.75% graded to 5% over 5 years, with an additional 10% in 2017 for MAPD renewal

NOTE 3 INVESTMENT RISK

Investment Policy

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

The Plan's investment policy takes a long-term investment perspective by allocating its assets across major asset classes and diversified broadly within each asset class in accordance with the "prudent person rule" as prescribed by the Illinois Statutes. The target asset allocation is 60% total equities and 40% total fixed income, with periodic rebalancing when the allocations approach plus or minus 5% of the target allocations. This asset allocation is designed to provide a high likelihood of achieving a long-term rate of return of 7.25% per year.

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

NOTE 3 INVESTMENT RISK (*continued*)

Investment Summary

The Plan's investments were held by Northern Trust Company as custodian to the Plan.

The following table summarizes the Plan's investments by type at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Asset-backed securities	\$ 9,278,939	\$ 8,966,834
Commercial mortgage-backed securities	3,215,471	6,887,146
Corporate bonds	130,641,253	208,588,647
Government agency securities	19,619,577	1,513,430
Government bonds	56,646,661	36,346,029
Government-issued commercial mortgage-backed securities	586,778	3,410,622
Government mortgage-backed securities	64,496,186	36,309,231
Municipal/provincial bonds	4,164,705	-
Non-government-backed CMOs	4,632,188	6,803,879
Index-linked government bonds	3,939,718	3,585,340
Other fixed income	998,419	1,225,830
U.S. equities	285,226,251	187,793,039
Foreign equities	81,701,625	185,326,431
Real estate	38,024,297	-
Venture capital and partnerships	887,181	-
Short-term investments and currency positions	<u>20,256,431</u>	<u>56,379,448</u>
Total investments, at fair value	<u>\$ 724,315,680</u>	<u>\$ 743,135,906</u>

Investment Risks

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

Stable NAV Risk: The risk that the collective short-term investment fund will not be able to maintain a NAV per share of \$1.00 at all times. The investment advisor manages this risk by buying securities with remaining maturities of one year or less and investing only in U.S. dollar-denominated securities that represent minimal credit risks.

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

NOTE 3 INVESTMENT RISK (*continued*)

Investment Risks

Credit Risk: Credit risk is the risk that an issuer of fixed-income securities held by the Plan may default on its obligation to pay interest and repay principal. This credit risk is measured by the credit quality ratings issued by a Nationally Recognized Statistical Rating Organization (NRSRO), such as Moody's and Standard & Poor's. The Plan has no formal credit risk policy. The Plan limits its investments to securities that have short-term debt ratings at the time of purchase in the two highest rating categories of a NRSRO or that are issued or guaranteed by, or otherwise allow the Plan to demand payment from, an issuer with such ratings.

The following tables provide information on the credit ratings associated with the Plan's investments in debt securities at December 31, 2015 and 2014. Rates were obtained from Standard & Poor's.

	2015						
	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Corporate Bonds	Government Agency Securities	Government Bonds	Government-Issued CMOs	
'AAA'	\$ 2,148,683	\$ 1,176,127	\$ 1,555,207	\$ -	\$ -	\$ -	
'AA'	2,828,789	250,942	5,198,177	19,619,577	-	-	
'A'	129,857	556,586	9,346,857	-	-	-	
'BBB'	423,629	-	22,560,128	-	-	-	
'BB'	-	-	6,411,743	-	-	-	
'B'	-	-	1,803,063	-	-	-	
'CCC'	-	-	152,950	-	-	-	
'CC'	-	-	-	-	-	-	
'D'	-	-	-	-	-	-	
Not rated	3,747,981	1,231,816	83,613,128	-	-	-	
U.S. Govt. agencies	-	-	-	-	56,646,661	586,778	
Total	\$ 9,278,939	\$ 3,215,471	\$ 130,641,253	\$ 19,619,577	\$ 56,646,661	\$ 586,778	

	2015 (continued)					
	Government Mortgage-Backed Securities	Municipal/ Provincial Bonds	Non-Government-Backed CMOs	Index-Linked Government Bonds	Other Fixed Income	Total
'AAA'	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,880,017
'AA'	539,857	-	-	-	-	28,437,342
'A'	-	-	403,835	-	-	10,437,135
'BBB'	-	-	348,094	-	-	23,331,851
'BB'	-	-	-	-	-	6,411,743
'B'	-	-	580,217	-	-	2,383,280
'CCC'	-	-	311,998	-	-	464,948
'CC'	-	-	-	-	-	-
'D'	-	-	219,639	-	-	219,639
Not rated	2,710,113	4,164,705	2,768,405	-	998,419	99,234,567
U.S. Govt. agencies	61,246,216	-	-	3,939,718	-	122,419,373
Total	\$ 64,496,186	\$ 4,164,705	\$ 4,632,188	\$ 3,939,718	\$ 998,419	\$ 298,219,895

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

NOTE 3 INVESTMENT RISK (continued)

Credit Risks (continued)

	2014					
	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Corporate Bonds	Government Agency Securities	Government Bonds	Commercial Mortgage-Backed Securities
'AAA'	\$ 2,246,303	\$ 2,134,825	\$ 1,905,045	\$ 79,702	\$ -	\$ -
'AA'	3,293,815	930,906	1,765,206	1,033,598	-	-
'A'	226,821	588,486	5,682,791	-	-	-
'BBB'	417,523	420,270	22,777,208	-	-	-
'BB'	-	-	7,551,300	-	-	-
'B'	-	-	1,322,544	-	-	-
'CCC'	-	-	226,837	-	-	-
'CC'	-	-	-	-	-	-
'D'	-	215,014	-	-	-	-
Not rated	2,782,372	2,597,645	167,357,716	400,130	1,151,993	-
U.S. Gov't. agencies	-	-	-	-	35,194,036	3,410,622
Total	\$ 8,966,834	\$ 6,887,146	\$ 208,588,647	\$ 1,513,430	\$ 36,346,029	\$ 3,410,622

	2014 (continued)				
	Government Mortgage-Backed Securities	Non-Government-Backed CMOs	Index-Linked Government Bonds	Other Fixed Income	Total
'AAA'	\$ -	\$ -	\$ -	\$ -	\$ 6,365,875
'AA'	660,532	-	-	-	7,684,057
'A'	-	242,373	-	-	6,740,471
'BBB'	-	669,445	-	-	24,284,446
'BB'	-	-	-	-	7,551,300
'B'	-	675,932	-	-	1,998,476
'CCC'	-	1,658,037	-	-	1,884,874
'CC'	-	-	-	-	-
'D'	-	313,737	-	-	528,751
Not rated	2,233,581	3,244,355	-	1,225,830	180,993,622
U.S. Gov't. agencies	33,415,118	-	3,585,340	-	75,605,116
Total	\$ 36,309,231	\$ 6,803,879	\$ 3,585,340	\$ 1,225,830	\$ 313,636,988

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

NOTE 3 INVESTMENT RISK *(continued)*

Custodial Credit Risk: For an investment, it 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 investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty's trust department or agent but not in the Plan's name. The Plan's master custodian holds all investments of the Plan in the Plan's name. At December 31, 2015 and 2014, deposits of approximately \$0 and \$127,104, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

Concentration of Credit Risk: The concentration of credit risk is the risk of loss attributed to the magnitude of a Plan's investment in a single issuer.

The following investments represented 5% or more of the Plan's net position at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Institutional Emerging Markets Debt Fund	\$ 36,346,945	\$ 37,046,427
NT S&P Index – Non-Lending Fund	-	51,185,650
NT S&P 400 Index – Lending Fund	52,012,596	49,312,308
NT Aggregate Bond Index Fund	-	78,450,735
NT S&P 500 Equity Index – Lending Fund	54,596,214	(a)
Clarion Lion Properties Fund LLC	37,500,000	(a)

(a)–Not an investment in 2014.

The Plan did not invest in derivative instruments during the years ended December 31, 2015 and 2014.

Interest Rate Risk: The risk that during periods of rising interest rates, the fixed-income investments' yield will be lower than prevailing market rates; in periods of falling interest rates, the fixed-income investments' yield will tend to be higher. All fixed-income investments are managed by external investment managers. Each investment manager is required to determine the maturities of all fixed-income securities in their portfolio. Additionally, guidelines are provided to the external investment managers, given the level of risk within the investment manager's portfolio. These guidelines include a target duration range that is consistent with each investment manager's respective strategy.

The following tables segment the distribution of the Plan's investments into time periods of maturities based on the investments' cash flows.

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

NOTE 3 INVESTMENT RISK (continued)

Interest Rate Risk (continued)

At December 31, 2015, the Plan had the following investments and maturities related to certain fixed-income securities:

Investment Type	Market Value	Investment Maturities				
		Less Than 1 Year	1+ to 6 Years	6+ to 10 Years	More Than 10 Years	Maturity Not Determined
Asset-backed securities	\$ 9,278,939	\$ -	\$ 1,035,172	\$ 1,441,303	\$ 6,802,464	\$ -
Commercial mortgage-backed securities	3,215,471	-	209,412	-	3,006,059	-
Corporate bonds	130,641,253	3,168,023	16,945,345	19,683,022	8,056,015	82,788,848
Government agency securities	19,619,577	-	19,619,577	-	-	-
Government bonds	56,646,661	-	19,823,174	8,919,263	27,904,224	-
Government-issued commercial mortgage-backed securities	586,778	-	409,170	-	177,608	-
Government mortgage-backed securities	64,496,186	-	5,198,676	13,801,076	37,786,746	7,709,688
Municipal/provincial bonds	4,164,705	-	-	4,164,705	-	-
Non-government-backed collateralized mortgage obligations	4,632,188	-	-	219,639	4,412,549	-
Index-linked government bonds	3,939,718	-	381,452	1,633,726	1,924,540	-
Other fixed income	998,419	-	-	-	-	998,419
Total	\$ 298,219,895	\$ 3,168,023	\$ 63,621,978	\$ 49,862,734	\$ 90,070,205	\$ 91,496,955

At December 31, 2014, the Plan had the following investments and maturities related to certain fixed-income securities:

Investment Type	Market Value	Investment Maturities				
		Less Than 1 Year	1+ to 6 Years	6+ to 10 Years	More Than 10 Years	Maturity Not Determined
Asset-backed securities	\$ 8,966,834	\$ -	\$ -	\$ 1,357,561	\$ 7,609,273	\$ -
Commercial mortgage-backed securities	6,887,146	-	-	-	6,887,146	-
Corporate bonds	208,588,647	1,258,348	16,488,022	18,847,843	10,572,293	161,422,141
Government agency securities	1,513,430	-	1,113,300	-	400,130	-
Government bonds	36,346,029	-	19,776,911	11,413,649	5,155,469	-
Government-issued commercial mortgage-backed securities	3,410,622	-	265,536	3,145,086	-	-
Government mortgage-backed securities	36,309,231	-	3,243,400	705,053	21,644,216	10,716,562
Non-government-backed collateralized mortgage obligations	6,803,879	-	-	313,737	6,490,142	-
Index-linked government bonds	3,585,340	291,154	1,561,181	625,999	1,107,006	-
Other fixed income	1,225,830	-	-	-	-	1,225,830
Total	\$ 313,636,988	\$ 1,549,502	\$ 42,448,350	\$ 36,408,928	\$ 59,865,675	\$ 173,364,533

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

NOTE 3 INVESTMENT RISK (continued)

Foreign Currency Risk: The risk that changes in exchange rates will adversely affect the fair value of an investment. International equity securities purchased by the Plan meet exchange listing requirements and 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:

<u>Type of investment</u>	<u>(US\$) 2015</u>	<u>(US\$) 2014</u>
<i>Short-term investment and currency positions</i>		
British pound sterling	\$ -	\$ 125
European euro	<u>-</u>	<u>25,777</u>
	<u>\$ -</u>	<u>\$ 25,902</u>
<i>Equities</i>		
Australian dollar	\$ 2,719,067	\$ 1,639,824
British pound sterling	16,149,617	17,612,429
Canadian dollar	2,309,588	3,829,181
Danish krone	2,402,719	859,914
European euro	19,927,875	19,177,235
Hong Kong dollar	379,098	1,524,828
Japanese yen	14,795,889	14,231,936
New Taiwan dollar	-	423,961
Norwegian krone	1,173,553	1,876,102
Singapore dollar	949,153	1,485,780
South Korean won	811,278	-
Swedish krona	2,307,998	1,978,866
Swiss franc	<u>2,845,456</u>	<u>4,508,519</u>
	<u>\$ 66,771,291</u>	<u>\$ 69,148,575</u>
<i>Fixed income</i>		
British pound sterling	\$ -	\$ 186,662
Canadian dollar	-	79,702
European euro	-	557,386
Japanese yen	<u>-</u>	<u>407,945</u>
	<u>\$ -</u>	<u>\$ 1,231,695</u>

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

RETIREE HEALTH CARE PLAN

Notes to Financial Statements
December 31, 2015 and 2014

NOTE 4 RISKS AND UNCERTAINTIES

The Plan invests in investment securities that are exposed to several 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 plan net position.

Contributions to the Plan and the actuarial information are reported based on certain assumptions pertaining to interest rates, health care inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption processes, it is at least reasonably possible that changes in these estimates and assumptions in the near term could materially affect the amounts reported and disclosed in the financial statements.

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

NOTE 5 OPERATING LEASE

During 2013, the Retirement Plan for CTA employees entered into a new lease agreement for office space. The new lease expires on December 31, 2028. Rent paid by the Plan was \$31,975 in 2015 and \$22,993 in 2014, which represents 25% of the total amount of rent paid for the shared office facility. The remaining 75% of rent due was paid by the Retirement Plan for CTA employees based on management's expense allocation for the shared office space.

NOTE 6 TAX STATUS

The IRS issued a private letter ruling dated June 16, 2009, stating that the RHCT is qualified under Section 115(1) of the Code and, therefore, the RHCT's income is excludable from gross income. The RHCT and the Plan are required to operate in conformity with the Code to maintain this tax-exempt qualification. The Plan's management is not aware of any course of action or series of events that have occurred that may adversely affect the RHCT and the Plan's tax status.

NOTE 7 SUBSEQUENT EVENT

Starting January 1, 2017, non-Medicare retiree premium contribution amounts were increased. The increments varied based on the retiree's years of service.

REQUIRED SUPPLEMENTARY INFORMATION

RETIREE HEALTH CARE PLAN

Schedule of Funding Progress
(Unaudited)

<u>Year</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c)</u>
2015	12/31/2015	\$716,956,102	\$ 546,751,665	\$(170,204,437)	131.1%	\$662,684,711	(25.7)%
2014	12/31/2014	732,599,705	546,685,683	(185,914,022)	134.0	632,394,411	(29.4)
2013	12/31/2013	722,928,591	588,433,780	(134,494,811)	122.9	635,900,577	(21.2)
2012	12/31/2012	643,201,032	455,088,976	(188,112,056)	141.3	625,807,630	(30.1)
2011	12/31/2011	581,484,747	481,348,984	(100,135,763)	120.8	617,246,244	(16.2)
2010	12/31/2010	586,961,435	485,221,881	(101,739,554)	121.0	598,267,896	(17.0)

See accompanying Independent Auditor's Report.

RETIREE HEALTH CARE PLAN

Schedule of Contributions from Employer and Other Contributing Entities
(Unaudited)

<u>Year Ended December 31</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
2015	\$ -	\$ -	N/A
2014	-	-	N/A
2013	-	79,264*	N/A
2012	-	652,568*	N/A
2011	-	8,895,704*	N/A
2010	-	3,925,041*	N/A

*Amount represents on-behalf reimbursements from the federal government under Medicare's Retiree Drug Subsidy Program and/or payments from the Early Retiree Reinsurance Program.

N/A—Not applicable.

RETIREE HEALTH CARE PLAN

Notes to Required Supplementary Information
For the Years Ended December 31, 2015 and 2014
(Unaudited)

Actuarial Method and Assumptions

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

Valuation date:	December 31, 2015 and 2014
Actuarial cost method:	Projected-unit credit
Amortization method:	Level dollar, open
Amortization period:	30 years remaining
Asset valuation method:	Market value
<i>Actuarial assumptions</i>	
Investment rate of return:	7.00% for 2015 and 2014
Projected salary increases:	For 2015 and 2014 valuations: 9.0% 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
Inflation rate:	3.25% for 2015 and 2014
Medical and prescription drug cost trend rate:	For 2015 valuation: HMO & PPO (pre-Medicare) – 7.7% for 2016, graded to 5.0% over 8 years; MAPD (Medicare) – 0.0% for 2016, then 8.25% graded to 5.0% over 7 years, with an additional 10% in 2017 for MAPD renewal For 2014 valuation: HMO & PPO (pre-Medicare) – 8% for 2015, graded to 5.0% over 6 years; MAPD (Medicare) – 4.25% for 2015, then 8.75% graded to 5.0% over 5 years, with an additional 10% in 2017 for MAPD renewal

See accompanying Independent Auditor's Report.

OTHER INFORMATION

RETIREE HEALTH CARE PLAN

Schedule of Investment and Administrative Expenses
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<i>Investment expenses</i>		
Investment management fees	\$ 2,834,241	\$ 3,283,878
Investment consulting fees	165,000	184,875
Custodian fees	107,835	154,620
Other investment fees	83,728	112,451
Reporting and monitoring	<u>28,000</u>	<u>28,000</u>
Total investment expenses	<u>\$ 3,218,804</u>	<u>\$ 3,763,824</u>
<i>Administrative expenses</i>		
Staff salaries and fringe benefits	\$ 363,450	\$ 415,288
Outside consultants	23,231	22,825
Actuarial services	214,345	530,708
Auditing	62,672	68,715
Legal fees	451,146	740,730
Legal research	2,321	5,110
Data processing	154,160	153,532
Court reporting	7,058	6,367
Stationery and printing	41,369	53,820
Telephone and communication	5,781	9,097
Postage and messenger	37,318	42,597
Office space	31,975	22,993
Supplies	4,474	3,341
Utilities	1,101	1,571
Equipment	5,139	13,461
Insurance	63,469	69,206
Travel and seminars	11,933	7,847
Seminars for retirees	5,010	23,692
Moving	-	18,044
PCORI fee	4,008	4,202
ACA transitional reinsurance fee	75,875	123,291
Miscellaneous	<u>9,597</u>	<u>7,465</u>
Total administrative expenses	<u>\$ 1,575,432</u>	<u>\$ 2,343,902</u>

See accompanying Independent Auditor's Report.

