RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2001 AND 2000

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Independent Auditors' Report

The Retirement Allowance Committee
Retirement Plan for Chicago Transit Authority Employees

We have audited the accompanying statements of plan net assets for the Retirement Plan for Chicago Transit Authority Employees (the Plan) as of December 31, 2001 and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 2001, and the changes in its financial status for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The schedules of funding progress and of employer and employee contributions shown on pages 14 and 15 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Hill, Taylor LLC

May 10, 2002

RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES

STATEMENTS OF PLAN NET ASSETS
(Amounts in Thousands)

DECEMBER 31, 2001 AND 2000

	2001			2000
	Pension Plan	Postemployment Health Care Plan	Combined	Combined
Assets				
Total investments, at fair value	$ 1,667,632	$ 173,596	$ 1,841,228	$ 1,989,207
Receivables:				
Employer contributions	2,085	217	2,302	4,634
Employee contributions	1,042	109	1,151	2,320
Securities sold	5,652	588	6,240	124,454
Accrued interest and dividends	2,589	269	2,858	5,268
Other	46	5	51	34
	11,414	1,188	12,602	136,710
Total assets	1,679,046	174,784	1,853,830	2,125,917
Liabilities				
Payable upon return of securities loaned	145,814	15,182	160,996	160,193
Accounts payable	1,917	153	2,070	2,680
Contribution refunds payable	261	27	288	298
Securities purchased	10,319	1,075	11,394	37,688
Total liabilities	158,311	16,437	174,748	200,859
Net assets held in trust for plan benefits (A schedule of funding progress for the pension plan is presented on page 14.)	$ 1,520,735	$ 158,347	$ 1,679,082	$ 1,925,058

See notes to financial statements.

RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES

STATEMENTS OF CHANGES IN PLAN NET ASSETS

(Amounts in Thousands)

YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001			2000
	Pension Plan	Postemployment Health Care Plan	Combined	Combined
Additions				
Net investment income (loss)	$ (87,435)	$ (21,839)	$ (109,274)	$ 167,850
Employer contributions	24,081	3,138	27,219	25,904
Employee contributions	12,066	1,573	13,639	12,981
Total additions, net	(51,288)	(17,128)	(68,416)	206,735
Deductions				
Benefit payments and contribution refunds:				
Benefit payments	146,894	28,229	175,123	175,705
Contribution refunds, including interest	731	96	827	1,077
Administrative expenses	1,288	322	1,610	1,458
Total deductions	148,913	28,647	177,560	178,240
Net increase (decrease)	(200,201)	(45,775)	(245,976)	28,495
Net assets held in trust for plan benefits:				
Beginning of year	1,720,936	204,122	1,925,058	1,896,563
End of year	$ 1,520,735	$ 158,347	$ 1,679,082	$ 1,925,058

See notes to financial statements.

1. Description of the Plan:

The following brief description of the Retirement Plan for Chicago Transit Authority Employees (Plan) is provided for general information purposes only. Arbitration awards are periodically handed down and negotiated changes occur. These changes can revise certain provisions of the Plan with respect to the Chicago Transit Authority (CTA), employee contributions, retiree medical benefits, and employee death benefits. Those changes which affect the Plan are summarized in the following notes. Participants should refer to the Plan Document, as amended, for complete information.

General

The Plan is a single-employer contributory defined-benefit public pension plan covering all full-time permanent employees of the CTA. The Plan is administered by a Retirement Allowance Committee composed of members appointed by the CTA, the Amalgamated Transit Union (ATU), and bargained for employees not represented by the ATU. The Plan is classified as a "governmental plan" and is, therefore, exempt from the provisions of the Employee Retirement Income Security Act of 1974.

Participation and Pension Benefits

Employees who have completed one year of continuous service are eligible for participation. At December 31, 2001 and 2000, the number of participants were:

	2001	2000
Retirees, disabled participants, and beneficiaries of deceased retirees currently receiving benefits	8,057	8,039
Terminated employees entitled to benefits but not yet receiving benefits	27	25
Current employees:		
Vested	5,392	5,132
Nonvested as to employer contributions	4,714	4,588
	18,190	17,784

1. **Description of the Plan (Continued):**

Employees are entitled to annual pension benefits upon normal retirement at age 65, in an amount generally based on a percentage of the average annual compensation in the highest four of the ten 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 in 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 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. 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 until February 28, 1995, to respond. During 1997, the Plan offered a Voluntary Early Retirement Program to eligible employees who have 25 years of continuous service on or before December 31, 1999 and have not retired prior to January 1, 1997, in the form of a retirement allowance of 2.40% for each year of continuous service with a maximum retirement allowance of 70% of the employee’s annual compensation. All eligible employees elected to participate were allowed to retire as soon as possible but no later than December 31, 1999.

The Plan permits early retirement at age 55, generally with reduced benefits. However, in the event of early retirement by an employee who has 25 years or more of continuous service, regardless of age, benefits will not be reduced. Married employees receive their pension benefits in the form of a joint and survivor option unless they elect otherwise.

Death, Disability, and Other Benefits

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

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

1. **Description of the Plan (Continued):**

The Plan pays medical insurance premiums for each retiree under CTA-sponsored medical plans. The maximum premium paid by the Plan is limited by the terms of the existing Plan agreement to the level of premiums charged by the CTA to the Plan on December 31, 1999.

In January 2003, an agreement was reached between the Plan and the CTA, whereby the Plan will reimburse the CTA for the excess of retirees' claim costs over healthcare premiums paid to the CTA covering 1995 to 2002. The total amount to be reimbursed to the CTA under the agreement is $42,754,659, to be paid to the CTA during 2003. This amount has been included in the computation of the Plan's actuarial accrued liability for the 2001 plan year.

Contributions and Vesting

Contributions from the CTA and employees are based on a percentage of compensation pursuant to various agreements between the CTA and the Union. Effective December 1, 1995, the CTA contribution increased to 6% of total compensation, and the employee contribution increased to 3% of total compensation. During the period from January 1997 through June 1997, there were no employer or employee contributions to the pension fund due to a union contract agreement which enforced a pension holiday. Contributions resumed in July 1997.

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

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

At December 31, 2001, net assets held in trust for plan benefits included accumulated active employee contributions of $107,127,555, including accumulated interest of $24,338,614 (active employee contributions of $100,852,902, including accumulated interest of $23,377,634, at December 31, 2000).

1. **Description of the Plan (Continued):**

Employer and employee contribution rates are established through collective bargaining between the CTA and the Union which considers, among other things, an actuarial valuation of the Plan.

Priorities at Plan Termination

While it is the CTA's intent to maintain the Plan permanently, in the event the Plan terminates, the net assets of the Plan 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 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.

Income Tax Status

The Internal Revenue Service has issued a letter of determination dated December 19, 1985 and most recently on October 18, 2002, stating that the Plan is qualified under section 401 of the Internal Revenue Code (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 Internal Revenue Code to maintain this qualification. Plan management is not aware of any course of action or series of events that have occurred that may adversely affect the Plan's tax status.

2. **Summary of Significant Accounting Policies:**

General

The Plan maintains its accounting records on the basis of cash receipts and disbursements. The accompanying financial statements have been prepared on the accrual basis and thus reflect receivables and payables for dividends, interest, investments purchased and sold, and employer and employee contributions that are not recorded in the accounting records.

The Plan adopted the provisions of Governmental Accounting Standards Board's Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note*

2. **Summary of Significant Accounting Policies (Continued):**

Disclosures for Defined Contribution Plans (GAS No. 25), and Statement No. 26, *Financial Reporting for Postemployment Health Care Plans Administered by Defined Benefit Pension Plans* (GAS No. 26). In accordance with GAS No. 25, for financial reporting purposes, postemployment health care benefits are considered, in substance, a postemployment health care plan administered by, but not part of, the pension plan.

As provided by GAS No. 26, total assets were proportionately allocated between the pension and postemployment health care plans based on the respective plan's portion of the total actuarial accrued liability as of that date. Changes in plan net assets subsequent thereto have been allocated between the pension plan and the health care plan based on the proportionate share of average actuarial accrued liability, actual activity, or estimates that approximate actual activity of the respective plan.

Investment Valuation

All investments are carried at fair value. Fair value of investments in common stocks, corporate and U.S. government and U.S. government agencies bonds and notes, and short-term securities is based on quoted market prices. Estimated fair value of real estate investment is determined as follows: The estimated fair value of pooled real estate funds is based on independent appraisals of underlying properties. Mortgages are valued at expected future cash flows discounted at interest rates which give effect to risk characteristics.

Contributions and Benefits

The Plan accrues, as applicable, the contributions due but not received from the CTA at the Plan's year end. Pension benefit payments are recorded on the accrual method; death benefits and contribution refunds, including interest, are reflected as liabilities upon approval for payment by the Retirement Allowance Committee.

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. Gains or losses are included in the statements of changes in plan net assets in the year in which they occur.

2. **Summary of Significant Accounting Policies (Continued):**

Investment Income

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

Interest on Refunds of Participant Contributions

Interest on refunds of participant contributions ($91,964 in 2001; $123,225 in 2000) is expensed when the liability for the refunds is recorded. Interest on accumulated contributions from continuing participants is reflected in each participant's account annually.

Cash Equivalents

The Plan considers all highly liquid investments with a maturity date of three months or less at the date of purchase to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. **Investments:**

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

All of the Plan's non-real estate investments at December 31, 2001 and 2000, represent uninsured, uncollateralized investments for which the securities are held by TNT in its trust department but not in the Plan's name.

In 1996, the Plan adopted the provisions of Governmental Accounting Standards Board's Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions* (GAS No. 28). On July 10, 1996, the Board entered into a securities lending agreement with TNT, the custodian to the Plan. The Plan participates in TNT's securities lending program by lending certain securities to borrowers and can earn additional income, which is included in net investments income on the statements of changes in plan net assets. Loans of securities through TNT are collateralized by cash,

3. **Investments (Continued):**

letters of credit, or securities issued or guaranteed by the U.S. government or its agencies, equal to at least 102% of the current market value of the U.S. loaned securities and 105% of the current market value of the loaned non-U.S. securities. Lending securities involves certain risks, the most significant of which is the risk that a borrower may fail to return a portfolio security. Additionally, the Plan would be exposed to the credit risk of the borrower should the market value of the securities loaned exceed the market value of the collateral pledged.

At December 31, 2001, the market value of the securities loaned and collateral amounted to $162,108,373 and $167,297,960, respectively, ($164,229,000 and $170,129,000 at December 31, 2000). Pursuant to GAS No. 28, the market value of the cash collateral received of $160,996,000 and $160,193,000 is included in total investments and payable upon return of securities loaned on the statements of plan net assets at December 31, 2001 and 2000, respectively. Additionally, non-cash collateral and letters of credit have been posted by borrowers of approximately $6,302,000 and $9,937,000 at December 31, 2001 and 2000, respectively.

Fair value of combined investments at December 31, 2001 and 2000, consisted of the following:

	2001	**2000**
	(Amounts in Thousands)	
Common stocks, domestic and international	$ 1,236,519	$ 1,236,889
Bonds and notes:		
Corporate	88,245	149,410
U.S. government and U.S. government agencies	96,349	164,383
Real estate – Pooled funds, equity interests, and mortgages	172,740	137,978
Venture capital and partnerships	40,200	44,536
Cash collateral invested from securities loaned	160,996	160,193
Cash equivalents	46,179	95,818
Combined investments, at fair value	$ 1,841,228	$ 1,989,207

The cost of combined investments at December 31, 2001 and 2000, was $1,767,061 and $1,758,207, respectively.

3. **Investments (Continued):**

Combined net investment income for the years ended December 31, 2001 and 2000, consisted of the following:

	2001	2000
	(Amounts in Thousands)	
Net realized gains (losses) and change in net unrealized appreciation (depreciation) in fair value of investments	$ (143,907)	$ 134,066
Interest	24,444	27,670
Dividends	18,366	16,074
	(101,097)	177,810
Investment expenses	(8,177)	(9,960)
Combined net investment income (loss)	$ (109,274)	$ 167,850

There were no individual investments representing 5% or more of the Plan's net assets at December 31, 2001 or 2000.

4. **Combined Investment and Administrative Expenses:**

	2001	2000
	(Amounts in Thousands)	
Investment Expenses		
Reporting and monitoring	$ 56	$ 56
Real estate expenses	133	213
Investment management fees	6,978	8,761
Trustee fees	546	506
Investment advisors	271	216
Real estate legal	12	111
Investment legal	61	42
Other	120	55
Total investment expenses	$ 8,177	$ 9,960

4. **Combined Investment and Administrative Expenses (Continued):**

	2001	2000
	(Amounts in Thousands)	
Administrative Expenses		
Personal services:		
Staff salaries and fringe benefits	$ 1,070	$ 939
Services of CTA	1	1
	1,071	940
Professional services:		
Actuarial	81	52
Auditing	30	30
Data processing	13	5
Legal	168	130
	292	217
Communication:		
Stationery and printing	2	1
Telephone	37	25
Postage	4	6
	43	32
Rentals:		
Office space	75	84
Equipment	7	4
	82	88
Miscellaneous:		
Seminars	31	29
Supplies	8	8
Equipment	55	110
Disability Pilot Project	16	-
Other	12	34
	122	181
Combined administrative expenses	$ 1,610	$ 1,458

Cost of administrating the Plan are funded by plan assets.

5. **Risk Management:**

The Plan is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Plan carries commercial insurance to reduce its exposure to risk of loss. There is no significant reduction in insurance coverage from year to year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Required Supplementary Information

RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS
(Amounts in Thousands)

Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2001	1/01/02	$ 1,355,567	$ 2,044,330	$ 688,763	66.3%	$ 459,343	149.9%
2000	1/01/01	1,595,609	2,058,871	463,262	77.5	431,703	107.3
1999	1/01/00	1,494,585	1,871,277	376,692	79.9	424,518	88.7
1998	1/01/99	1,363,625	1,776,994	413,369	76.7	407,406	101.5
1997	1/01/98	1,269,568	1,721,888	452,320	73.7	457,717	98.8
1996	1/01/97	1,182,931	1,505,398	322,467	78.6	443,508	72.7

See notes to supplementary information.

RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER AND EMPLOYEE CONTRIBUTIONS

(Amounts in Thousands)

Year ended December 31	Annual Total Contribution	Annual Required Contribution	Percentage Contributed
2001	$ 36,148	$ 73,387	49.3%
2000	34,266	64,943	52.8
1999	33,765	66,720	50.6
1998	32,081	71,928	44.6
1997	16,643	59,943	27.8
1996	34,198	57,815	59.1

See notes to supplementary information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. **General**

In accordance with GAS No. 25, for financial reporting purposes, postemployment health care benefits are considered, in substance, a postemployment health care plan administered by, but not part of, the pension plan. Accordingly, the required supplementary schedules exclude amounts relating to the health care plan. The actuarial value of assets has been allocated to the pension plan based on the pension plan's portion of the total actuarial accrued liability, and the total contributions used in the calculation of the percentage contributed have been allocated to the pension plan based on the pension plan's portion of the total annual required contribution.

As provided by GAS No. 26, supplementary schedules for the health care plan have not been presented.

2. **Actuarial Assumptions**

The actuarial accrued liability, the actuarial value of assets, and the annual required contribution have been determined by Gabriel, Roeder, Smith & Company. The actuarial accrued liability represents the amount that results from applying actuarial assumptions to adjust the projected plan benefits at a given date by the probable financial effect of intervening events (such as changes in compensation levels), to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The actuarial value of assets represents an adjustment to the net assets by systematically recognizing over a five-year period differences between the expected return and the actual return on investments. This method is designed to smooth the effect of investment performance on contribution requirements. The annual required contribution is an amount calculated in accordance with the provisions of GAS No. 25 and represents an amount the Governmental Accounting Standards Board would deem a reasonable funding level. Actual contributions required of the CTA and of employees are determined by agreement between CTA and the Amalgamated Transit Union, independent of this calculation.

2. **Actuarial Assumptions (Continued)**

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

Valuation date	January 1, 2002
Actuarial cost method	Entry Age Normal Cost
Amortization method	Level dollar open
Amortization period	40 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	9%
Projected salary increases*	5.5%
Cost-of-living adjustments	None

**Includes inflation at 4%.*

3. **Employer and Employee Contributions**

During 1994, contributions were suspended by the CTA and the employees until the first full pay period in March 1995. Effective March 1995, the CTA and employees contributed 2% and 1% of total compensation, respectively. From the period January 1997 through June 1997, there were no employer or employee contributions to the Plan due to a union contract agreement which enforced a pension holiday. Contributions resumed in July 1997 with CTA contributes 6% of total compensation and employees contribute 3% of total compensation.