RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2003
(With Comparative Totals for 2002)

RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES

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Independent Auditors' Report

The Retirement Allowance Committee
Retirement Plan for Chicago Transit Authority Employees

We have audited the accompanying statement of plan net assets for the Retirement Plan for Chicago Transit Authority Employees (the Plan) as of December 31, 2003 and the related statement 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 net assets of the Plan as of December 31, 2003, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Plan adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* during the year ended December 31, 2003.

The management's discussion and analysis and the schedules of funding progress and employer and employee contributions 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

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regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

Hill, Taylor LLC

April 22, 2004

Management's Discussion and Analysis

This 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 year ended December 31, 2003. For more detailed information regarding the Plan's financial activities, the reader should also review the Plan's financial statements, including the notes and supplementary schedules.

Financial Highlights

- The net assets held in trust for plan benefits totaled approximately $1.4 billion at December 31, 2003 compared to $1.3 billion at December 31, 2002. The net assets are available for payment of members' pension and health care benefits. Net assets increased by $78.3 million during 2003, due primarily to net appreciation in the fair value of the Plan's investments, resulting from favorable investment returns from the equity markets.

- Revenue for the year was $295.2 million, which comprises of contribution revenue of $44.4 million, net appreciation of investment of $224.7 million and investment income of $32.5 million, net of investment expenses of $6.4 million.

- Benefit payments to retirees decreased by $4.8 million in 2003 due to an increase of $7.2 million in pension benefits and a decrease of $12 million in health care reimbursements to the Chicago Transit Authority. Refunds of member contributions increased slightly during the year.

- The funded ratio of the Plan for both pension and healthcare was 48.5% at December 31, 2003 compared to 57.1% at December 31, 2002. This resulted from a decrease of actuarial value of assets of $145.9 million and an increase of $232.0 million in actuarial accrued liability as computed by the Plan's actuary.

Overview of the Financial Statements

The basic financial statements consist of a Statement of Plan Net Assets, a Statement of Changes in Plan Net Assets, notes to financial statements, and Required Supplementary Information. The financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB) and are described below:

- *The Statement of Plan Net Assets* presents the Plan's assets and liabilities and the resulting net assets held in trust for plan benefits at the end of the year. This statement reflects the Plan's investments at fair value as well as receivables and liabilities.

- *The Statement of Changes in Plan Net Assets* presents the additions and deductions to the Plan during the current year. It reflects the investment income and net realized and unrealized gains or losses during the year, along with members' contributions and employer's contributions; and then subtracting 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 also show detail of administrative expenses.

The Required Supplementary Information consists of a Schedule of Funding Progress, a Schedule of Employer and Employee Contributions as well as the related notes to discuss the actuarial assumptions and methods. Together, these two schedules provide historical trend information to enhance understanding of the financial position and the changes in the funded status of the Plan over time.

- *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 actuarial valuation of assets indicates that insufficient assets have been accumulated to fund future benefits of current members and retirees.

- *The Schedule of Employer and Employee Contributions* contains historical trend information of employer and employee contributions. It shows the value of total annual contributions the employer must pay as determined under the parameters in GASB Statement No. 25 and the related percentage the employer has contributed to meet its requirement.

Plan Net Assets

A condensed schedule of Plan Net Assets is presented below:

Plan Net Assets
(in millions)
As of December 31, 2003 and 2002

	2003	2002	Change $	Change %
Cash and cash equivalents	$ 16.7	$ 27.6	$ (10.9)	-39.5%
Receivables	10.5	11.0	(0.5)	-4.5
Brokers – unsettled trades	5.6	21.0	(15.4)	-73.3
Investments, at fair value	1,370.1	1,307.3	62.8	4.8
Invested securities lending collateral	85.1	149.2	(64.1)	-43.0
Total assets	1,488.0	1,516.1	(28.1)	
Brokers – unsettled trades	6.2	23.9	(17.7)	-74.1
Securities lending payable	85.1	149.2	(64.1)	-43.0
Accounts payable and accrued expenses	19.7	44.3	(24.6)	-55.5
Total liabilities	111.0	217.4	(106.4)	
Net Plan Assets	$1,377.0	$1,298.7	$ 78.3	6.0%

Plan net assets increased $78.3 million or 6.0% for the year ended December 31, 2003 compared to prior year, primarily due to a 4.8% increase in investments of $62.8 million. Receivables decreased by $15.9 million at December 31, 2003 due to pending sales of securities. Liabilities decreased by $106.4 million at December 31, 2003 due to a combination of decrease in pending securities purchases, decrease in liability for cash collateral related to securities lending and decrease in accrued liabilities related to retirees' health care claim reimbursements to the CTA.

Changes in Plan Net Assets

The following schedule presents a condensed comparison of various Changes in Plan Net Assets:

Changes in Plan Net Assets
(in millions)
Years Ended December 31, 2003 and 2002

	2003	2002	Change $	Change %
Additions:				
Member contributions	$ 14.8	$ 14.5	$ 0.3	2.1%
Employer contributions	29.6	28.9	0.7	2.4
Net investment gains (losses) and investment income	250.2	(207.2)	457.4	220.8
Securities lending income	0.2	0.3	(0.1)	-33.3
Miscellaneous income	0.4	4.5	(4.1)	-91.1
Total additions	295.2	(159.0)	454.2	
Deductions:				
Annuity and disability benefits	214.4	219.2	(4.8)	-2.2
Refunds of contributions	0.7	0.6	0.1	16.7
Administrative expenses	1.8	1.7	0.1	5.9
Total deductions	216.9	221.5	(4.6)	
Net Increase (Decrease)	$ 78.3	$ (380.5)	$ 458.8	120.6%

Total additions of $295.2 million in 2003 were significantly more than the amounts in prior year, primarily due to the net appreciation in the fair value of investments of $250.2 million in 2003. Investment earnings, income from securities lending activities as well as investment expenses were lower in 2003 compared to 2002. Members and employer contributions were held steady during the year.

Deductions decreased by $4.6 million for the year ended December 31, 2003 as a result of a 2.2% decrease in benefit payments to participants, offset by a slight increase in refunds of contributions and administrative expenses during the year.

Plan Membership

The following table presents the changes in plan membership from year-end 2002 to year-end 2003.

Changes in Plan Membership
As of December 31, 2003 and 2002

	2003	2002	Change	%
Retirees and beneficiaries receiving benefits	8,399	8,160	239	2.9%
Active employees	10,376	10,170	206	2.0
Terminated (inactive members) employees entitled to benefits or refunds of contributions	46	44	2	4.5
Total	18,821	18,374	447	2.4%

Funding Status on both Pension and Health Care Plans

The actuarial value of assets for both the pension and health care plans, using the GASB 25 method, for the December 31, 2003 valuation was $1.6 billion and the actuarial liability was $3.3 billion. The actuarial liability increased by $232.0 million more in 2003, from $3.0 billion in 2002. The assets currently fund 48.5% of this liability, a decrease from the 57.1% funded ratio in 2002. A combination of factors served to increase actuarial liability and decrease actuarial value of assets at December 31, 2003. Higher number of employees retiring than expected, increases in the health care claim costs and the net effect of the arbitration award of November 12, 2003 all contributed to a higher actuarial liability. Even though the Plan earned a significant investment return in the current year, the prior years' investment losses had the effect of decreasing the current funding ratio. The poor investment returns of 2001 and 2002 will continue to have a negative impact on the funding ratio in the future until they are fully recognized over the five-year smoothed period for actuarial purposes.

Investment Activities

The Plan's assets held for investment reached $1.4 billion at year-end 2003, an increase of $51.9 million over 2002, achieved with a total plan return of 22.4%. The strong rally in share prices in domestic and foreign equity markets during the fourth quarter of 2003 accounted for the significant increase in the rate of return. Domestic investment managers returned 31.1% while foreign investment managers returned 32.9% at December 31, 2003. The fair value of the Plan's assets is impacted by the volatility of the financial market and changes in the economy. Therefore, these high rates of returns may not be sustainable in future years. The Plan's investment asset allocation stayed within its target asset allocation ranges with 46% of assets invested in domestic equity, 5% invested in international equity, 33% invested in fixed income, including 23% in Stable Value, 10% invested in real estate and 6% invested in private equity.

Investment Returns
Years Ended December 31, 2003 and 2002

	2003	2002
Total Plan	22.4%	-12.6%
Benchmark portfolio	18.7	-16.3
Domestic equities	31.1%	-19.6%
Benchmark (S&P 500)	28.7	-22.1
International equities	32.9%	-10.6%
Benchmark (MSCI EAFE)	38.6	-15.9
Fixed income	3.9%	7.7%
Benchmark (Lehman Aggregate)	4.1	10.3
Real estate	7.8%	5.8%
Benchmark (NCREIF)	9.0	5.8

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 Plan's funded ratios have declined in each of the past three years, from 66.3% in 2001, to 57.1% in 2002, and to 48.5% in 2003.

Arbitration Award

Plan provisions were changed in 2003 by the issuance of the Arbitration Award of November 12, 2003 between the CTA and the Association (Locals 241 and 308 of the Amalgamated Transit Union). These changes include ad hoc benefit increases to retirees who retired prior to January 1, 2000, and increases the benefit multipliers for members who retired in 2000 and 2001, as well as only provide retiree health care benefits to employees hired on or before September 5, 2001.

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
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RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES

STATEMENT OF PLAN NET ASSETS
(Amounts in Thousands)

DECEMBER 31, 2003
(With Comparative Totals for 2002)

	2003			
	Pension Plan	Postemployment Health Care Plan	Combined	2002 Combined
Assets				
Total investments, at fair value	$ 1,388,692	$ 83,300	$ 1,471,992	$ 1,484,108
Receivables:				
Employer contributions	4,725	284	5,009	5,194
Employee contributions	2,364	142	2,506	2,605
Securities sold	5,244	315	5,559	20,953
Accrued interest and dividends	2,715	163	2,878	3,125
Other	124	7	131	85
	15,172	911	16,083	31,962
Total assets	1,403,864	84,211	1,488,075	1,516,070
Liabilities				
Payable upon return of securities loaned	80,329	4,819	85,148	149,211
Accounts payable	18,269	1,096	19,365	44,026
Contribution refunds payable	333	20	353	316
Securities purchased	5,856	351	6,207	23,893
Total liabilities	104,787	6,286	111,073	217,446
Net assets held in trust for plan benefits (A schedule of funding progress for the pension plan is presented on page 23)	$ 1,299,077	$ 77,925	$ 1,377,002	$ 1,298,624

See notes to financial statements.

RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES

STATEMENT OF CHANGES IN PLAN NET ASSETS

(Amounts in Thousands)

YEAR ENDED DECEMBER 31, 2003
(With Comparative Totals for 2002)

	2003			2002
	Pension Plan	Postemployment Health Care Plan	Combined	Combined
Additions				
Net investment income (loss)	$ 170,729	$ 80,142	$ 250,871	$ (202,309)
Employer contributions	19,570	10,027	29,597	28,858
Employee contributions	9,813	5,027	14,840	14,479
Total additions (reductions)	200,112	95,196	295,308	(158,972)
Deductions				
Benefit payments and contribution refunds:				
Benefit payments	155,830	58,612	214,442	219,170
Contribution refunds, including interest	611	119	730	666
Administrative expenses	1,196	562	1,758	1,650
Total deductions	157,637	59,293	216,930	221,486
Net increase (decrease)	42,475	35,903	78,378	(380,458)
Net assets held in trust for plan benefits:				
Beginning of year	1,256,602	42,022	1,298,624	1,679,082
End of year	$ 1,299,077	$ 77,925	$ 1,377,002	$ 1,298,624

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.

The Plan was amended effective January 8, 2003 to comply with new federal legislation and make changes to certain actuarial assumptions.

As part of the Arbitration Award ruling of November 12, 2003, the following ad hoc increases were given to retirees in payment status as of January 1, 2000:

a. $75 per month for members retired before January 1, 1980.
b. $50 per month for members who retired on or after January 1, 1980 but before January 1, 1991.
c. $40 per month for members who retired on or after January 1, 1991 but before January 1, 2000.

The Arbitration Award ruling also limits to only employees hired on or before September 5, 2001 to be eligible for retiree health care benefits.

Participation and Pension Benefits

Employees who have completed one year of continuous service are eligible for participation. At December 31, 2003 and 2002, the numbers of participants were:

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

	2003	2002
Retirees, disabled participants, and beneficiaries of deceased retirees currently receiving benefits	8,399	8,160
Terminated employees entitled to benefits but not yet receiving benefits	46	44
Current employees:		
Vested	5,385	5,189
Nonvested as to employer contributions	4,991	4,981
	18,821	18,374

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. The Arbitration Award of November 12, 2003 increased the benefit multiplier for service after June 1, 1949, from 1.85% to 2.00% 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 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.

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

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

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.

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 reimbursed the CTA for the excess of retirees' claim costs over health care premiums paid to the CTA covering 1995 to 2002 in the amount of $42,318,789. Starting in 2003, the Plan reimburses CTA for the actual retirees' health care claim costs.

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

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

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, 2003, net assets held in trust for plan benefits included accumulated active employee contributions of $119,794,873, including accumulated interest of $25,868,750 (active employee contributions of $114,799,775, including accumulated interest of $25,469,367, at December 31, 2002).

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.

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

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 (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* for the year ended December 31, 2003. This statement required the inclusion of a management's discussion and analysis, which is presented on pages 3 through 8. Implementation of GASB Statement No. 34 had no effect on plan net assets.

For financial reporting purposes, the 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 GASB Statement No. 26, *Financial Reporting for Postemployment Health Care Plans Administered by Defined Benefit Pension Plans,* total assets of the Plan 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

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

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 pooled real estate investment 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 statement of changes in plan net assets in the year in which they occur.

Investment Income

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

Interest on Refunds of Participant Contributions

Interest on refunds of participant contributions ($85,816 in 2003; $78,939 in 2002) is

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

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 reported amounts of net assets held in trust for benefits at the date of the financial statements and the actuarial information included in the required supplementary information as of the benefit information date, the changes in Plan net assets during the reporting period and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Risks and Uncertainties

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 at least 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.

3. **Investments:**

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

3. **Investments (Continued):**

All of the Plan's non-real estate investments at December 31, 2003 and 2002, 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 GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions.* 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 statement of changes in plan net assets. Loans of securities through TNT are collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. government or its agencies, equal to at least 102% of the current 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, 2003, the market value of the securities loaned and collateral amounted to $94,173,330 and $96,582,662, respectively, ($149,009,303 and $152,425,351 at December 31, 2002). Pursuant to GASB Statement No. 28, the market value of the cash collateral received of approximately $85,148,000 and $149,211,000 is included in total investments and payable upon return of securities loaned on the statement of plan net assets at December 31, 2003 and 2002, respectively. Additionally, non-cash collateral and letters of credit have been posted by borrowers of approximately $11,435,000 and $3,214,000 at December 31, 2003 and 2002, respectively.

Fair value of combined investments at December 31, 2003 and 2002, consisted of the following:

3. **Investments (Continued):**

	2003	2002
	(Amounts in Thousands)	
Common stocks, domestic and international	$ 935,869	$ 900,464
Bonds and notes:		
Corporate	108,917	99,072
U.S. government and U.S. government agencies	117,876	85,939
Real estate – Pooled funds, equity interests, and mortgages	161,963	180,554
Venture capital and partnerships	45,476	41,242
Cash collateral invested from securities loaned	85,148	149,211
Cash equivalents	16,743	27,626
Combined investments, at fair value	$ 1,471,992	$ 1,484,108

The cost of combined investments at December 31, 2003 and 2002, was $1,371,865 $1,569,827, respectively.

Combined net investment income (loss) for the years ended December 31, 2003 and 2002, consisted of the following:

	2003	2002
	(Amounts in Thousands)	
Net realized gains (losses) and change in net unrealized appreciation (depreciation) in fair value of investments	$ 224,847	$ (238,232)
Interest	16,815	21,964
Dividends	15,652	20,767
	257,314	(195,501)
Investment expenses	(6,443)	(6,808)
Combined net investment income (loss)	$ 250,871	$ (202,309)

3. **Investments (Continued):**

The following investments represent five percent or more of Plan net assets at December 31, 2003 and 2002:

	2003	2002
	(Amounts in Thousands)	
ABN Amro Inc. Plus Fund	$ 141,342	$ 127,879
Northern Trust Collective S&P 500 Equity Index Fund	70,859	80,959

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

	2003	2002
	(Amounts in Thousands)	
Investment Expenses		
Reporting and monitoring	$ 56	$ 56
Real estate expenses	143	204
Investment management fees	5,432	5,751
Trustee fees	542	544
Investment advisors	261	250
Real estate legal	3	2
Investment legal	6	1
Total investment expenses	$ 6,443	$ 6,808

	2003	2002
	(Amounts in Thousands)	
Administrative Expenses		
Personal services:		
Staff salaries and fringe benefits	$ 1,152	$ 1,076

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

	2003	2002
	(Amounts in Thousands)	
Professional services:		
Actuarial	$ 88	$ 65
Auditing	44	32
Data processing	32	18
Legal	271	278
	435	393
Communication:		
Stationery and printing	9	4
Telephone	19	32
Postage	7	8
	35	44
Rentals:		
Office space	80	77
Equipment	1	-
	81	77
Miscellaneous:		
Seminars	27	40
Supplies	8	8
Equipment	1	1
Other	19	11
	55	60
Combined administrative expenses	$ 1,758	$ 1,650

Costs 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.

6. **New Accounting Pronouncement:**

In March 2003, the Governmental Accounting Standards Board issued Statement No. 40, *Deposit and Investment Risk Disclosures,* which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and establishes more comprehensive disclosure requirements addressing credit risk, interest rate risk, and foreign currency risk. GASB Statement No. 40 applies to all state and local governments and is effective for financial statements for periods beginning after June 15, 2004.

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) - 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)
2003	1/01/04	$ 1,062,399	$ 2,189,666	$ 1,127,267	48.5%	$ 486,626	231.6%
2002	1/01/03	1,190,087	2,085,723	895,636	57.1	480,740	186.3
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

*The Projected Unit Credit cost method was used in the 2003 actuarial valuation.
The Entry Age Normal cost method was used prior to 2003.

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
2003	$ 29,383	$ 117,305	25.0%
2002	29,648	97,044	30.6
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

See notes to supplementary information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. **General**:

In accordance with GASB Statement 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 GASB Statement 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 GASB Statement 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, 2004
Actuarial cost method	Projected Unit Credit Cost (Entry Age Normal Cost prior to 2003)
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.