

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

TABLE OF CONTENTS

|                                                              | <u>Pages</u> |
|--------------------------------------------------------------|--------------|
| Independent Auditors' Report                                 | 1            |
| Management's Discussion and Analysis                         | 2-7          |
| <b>Basic Financial Statements:</b>                           |              |
| Statement of Plan Net Assets                                 | 8            |
| Statement of Changes in Plan Net Assets                      | 9            |
| Notes to Financial Statements                                | 10-32        |
| <b>Required Supplementary Information:</b>                   |              |
| Schedule of Funding Progress – Pension                       | 33           |
| Schedule of Employer and Employee Contributions – Pension    | 34           |
| Notes to Required Supplementary Information – Pension        | 35-36        |
| Schedule of Funding Progress – Healthcare                    | 37           |
| Schedule of Employer and Employee Contributions – Healthcare | 38           |
| Notes to Required Supplementary Information – Healthcare     | 39           |



Hill, Taylor LLC  
Certified Public Accountants  
116 South Michigan Avenue, 11th Floor  
Chicago, Illinois 60603  
V 312-332-4964 F 312-332-0181

Member of the  
American Institute  
of Certified Public Accountants

Member of the  
Illinois CPA Society

## Independent Auditors' Report

The Retirement Allowance Committee  
Retirement Plan for Chicago Transit Authority Employees

We have audited the accompanying statement of plan net assets of the Retirement Plan for Chicago Transit Authority Employees (the Plan) as of December 31, 2007 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. The prior year summarized comparative information has been derived from the Plan's 2006 financial statements and, in our report dated October 12, 2007, we expressed an unqualified opinion on those financial statements.

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, 2007, 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.

The management's discussion and analysis and the schedules of funding progress and employer and employee contributions for the pension and healthcare plans, respectively, 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 required supplementary information. However, we did not audit the information and we express no opinion on it.

*Hill, Taylor LLC*

September 24, 2008

## 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, 2007. 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 \$1.02 billion at December 31, 2007 compared to \$1.12 billion at December 31, 2006. The net assets are available for payment of members' pension and health care benefits. Net loss to the Plan decreased Plan assets by \$97.3 million in 2007.
- Revenue for the year was \$163.4 million, which was comprised of contribution revenue of \$50.7 million, net appreciation of investment of \$91.4 million and investment income of \$26.8 million, net of investment expenses of \$5.5 million.
- Benefit payments to retirees increased by \$3.9 million in 2007. Healthcare cost rose \$6.9 million. Refunds of member contributions increased slightly during the year.
- The funded ratio of the Plan for pension benefits was 37.21% at December 31, 2007 compared to 40.85% at December 31, 2006. This resulted from a decrease of actuarial value of assets of \$65.4 million and an increase in actuarial accrued liability of \$65.3 million, as computed by the Plan's actuary. The funded ratio for healthcare benefits was 65.9% as of December 31, 2007, compared to 3.3% at December 31, 2006. This resulted from a decrease in the actuarial accrued liability of \$1.7 billion due to changes in the Plan from Public Act 95-708, which effectively removed the liability for retiree healthcare from the Retirement Plan effective January 1, 2009.

### 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 two Schedules of Funding Progress, and Schedules of Employer and Employee Contributions for the pension and healthcare plans, respectively, as well as the related notes to discuss the actuarial assumptions and methods. Together, these 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 indicate that insufficient assets have been accumulated to fund future benefits of current members and retirees.
- *The Schedule of Employer and Employee Contributions* contains historical trend information of employer and employee contributions. It shows the value of total annual contributions the employer must pay as determined under the parameters in GASB Statement No. 25 for the pension plan and GASB Statement No. 43 for the healthcare plan 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:

| <b>Plan Net Assets</b><br><b>(in millions)</b><br><b>As of December 31, 2007 and 2006</b> |                  |                  |                  |        |
|-------------------------------------------------------------------------------------------|------------------|------------------|------------------|--------|
|                                                                                           | 2007             | 2006             | Change           |        |
|                                                                                           |                  |                  | \$               | %      |
| Cash and cash equivalents                                                                 | \$ 22.1          | \$ 43.6          | \$ (21.5)        | -49.3% |
| Receivables                                                                               | 9.0              | 11.2             | (2.2)            | -19.6  |
| Brokers – unsettled trades                                                                | 3.1              | 78.8             | (75.7)           | -96.1  |
| Investments, at fair value                                                                | 1,011.8          | 1,087.9          | (76.1)           | -7.0   |
| Invested securities lending collateral                                                    | 86.3             | 89.8             | (3.5)            | -3.9   |
| Total assets                                                                              | <u>1,132.3</u>   | <u>1,311.3</u>   | <u>(179.0)</u>   |        |
| Brokers – unsettled trades                                                                | 1.7              | 80.7             | (79.0)           | -97.9  |
| Securities lending payable                                                                | 86.3             | 89.8             | (3.5)            | -3.9   |
| Accounts payable and accrued expenses                                                     | 21.6             | 20.8             | 0.8              | 3.8    |
| Total liabilities                                                                         | <u>109.6</u>     | <u>191.3</u>     | <u>(81.7)</u>    |        |
| Net Plan Assets                                                                           | <u>\$1,022.7</u> | <u>\$1,120.0</u> | <u>\$ (97.3)</u> | -8.7%  |

Plan net assets decreased by \$97.3 million or 8.7% at December 31, 2007 compared to prior year, primarily due to a 7.0% decrease in investments of \$76.1 million. Receivables decreased by \$78.0 million at December 31, 2007 due mainly to year-end pending sales of securities. Liabilities decreased by \$81.7 million at December 31, 2007 due to decreases in pending securities purchases, liability for cash collateral related to securities lending and accounts payable and accrued expenses.

### 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, 2007 and 2006

|                                                        | 2007             | 2006             | Change           |        |
|--------------------------------------------------------|------------------|------------------|------------------|--------|
|                                                        |                  |                  | \$               | %      |
| <b>Additions:</b>                                      |                  |                  |                  |        |
| Member contributions                                   | \$ 16.9          | \$ 17.8          | \$ (0.9)         | -5.1%  |
| Employer contributions                                 | 33.8             | 35.7             | (1.9)            | -5.3   |
| Net investment gains (losses)<br>and investment income | 112.3            | 132.7            | (20.4)           | -15.4  |
| Securities lending income                              | 0.4              | 0.1              | 0.3              | 300.0  |
| Total additions                                        | <u>163.4</u>     | <u>186.3</u>     | <u>(22.9)</u>    |        |
| <b>Deductions:</b>                                     |                  |                  |                  |        |
| Annuity and disability benefits                        | 257.0            | 246.2            | 10.8             | 4.4    |
| Refunds of contributions                               | 1.4              | 1.4              | -                | -      |
| Administrative expenses                                | 2.3              | 2.8              | (0.5)            | -17.9  |
| Total deductions                                       | <u>260.7</u>     | <u>250.4</u>     | <u>10.3</u>      |        |
| Net Decrease                                           | <u>\$ (97.3)</u> | <u>\$ (64.1)</u> | <u>\$ (33.2)</u> | -51.8% |

Total additions of \$163.4 million in 2007 were lower than the amounts in prior year primarily due to lower net appreciation in the fair value of investments by \$20.4 million in 2007.

Deductions increased by \$10.3 million for the year ended December 31, 2007 as a result of a \$10.8 million increase in pension benefit payments to participants.

### Plan Membership

The following table presents the changes in plan membership from year-end 2006 to year-end 2007.

**Changes in Plan Membership  
As of December 31, 2007 and 2006**

|                                | <u>2007</u>   | <u>2006</u>   | <u>Change</u> | <u>%</u>    |
|--------------------------------|---------------|---------------|---------------|-------------|
| Retirees and beneficiaries     |               |               |               |             |
| receiving benefits             | 9,215         | 9,116         | 99            | 1.1%        |
| Active employees               | 9,635         | 9,710         | (75)          | -0.8        |
| Terminated (inactive members)  |               |               |               |             |
| employees entitled to benefits |               |               |               |             |
| or refunds of contributions    | 47            | 41            | 6             | 14.6        |
| Total                          | <u>18,897</u> | <u>18,867</u> | <u>30</u>     | <u>0.2%</u> |

**Funding Status on both Pension and Health Care Plans**

The actuarial value of assets for pension benefits under GASB 25, as of December 31, 2007, was \$942 million and the actuarial liability was \$2.5 billion. The actuarial value of assets decreased by \$65.4 million and the actuarial accrued liability increased by \$65.3 million in 2007 over the 2006 levels. Of the \$65.3 million increase in liabilities, \$46.1 million was attributable to the decrease in the interest rate assumption from 9.0% to 8.75%. The assets currently fund 37.21% of this liability, a decrease from the 40.85% funded ratio in 2006. The decrease in the actuarial value of assets reflects the negative cash flow of the plan. Benefit payments and expenses were greater than contributions and investment income. Liabilities increased less than expected, primarily due to salary increases less than expected.

The actuarial value of assets for retiree healthcare benefits, under GASB 43, as of December 31, 2007, was \$45.4 million and the actuarial liability was \$68.8 million. The actuarial value of assets decreased by \$13.5 million and the liability decreased by \$1.7 billion. The decrease in liabilities is due to Public Act 95-708 which required the bifurcation of the pension and healthcare plans no later than January 1, 2009. The liability at January 1, 2008 reflects only one year of cash flow for the retiree healthcare plan. Effective January 1, 2009, retiree healthcare benefits are to be paid from the newly established Retiree Healthcare Trust.

**Investment Activities**

The Plan's assets held for investment were \$1.0 billion at year-end 2007, a decrease of \$97.6 million over 2006, with a total plan rate of return of 9.8% for the year. The continued rally in share prices in domestic and foreign equity markets during 2007 contributed to the gain in equity securities. Domestic investment managers returned 8.1% while foreign investment managers returned 7.4% at December 31, 2007. The fair value of the Plan's assets is impacted by the volatility of the financial market and changes in the economy. Therefore, these rates of returns will fluctuate 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, 10% invested in real estate, 6% invested in private equity, 6% invested in hedge funds and 27% invested in fixed income, including 23% in stable value.

**Investment Returns**  
**Years Ended December 31, 2007 and 2006**

|                              | <u>2007</u> | <u>2006</u> |
|------------------------------|-------------|-------------|
| Total Plan                   | 9.8%        | 13.5%       |
| Benchmark portfolio          | 6.3         | 12          |
| Domestic equities            | 8.1%        | 15.1%       |
| Benchmark (Wilshire 5000)    | 6.8         | 8.2         |
| International equities       | 7.4%        | 24.6%       |
| Benchmark (MSCI EAFE)        | 11.0        | 26.3        |
| Fixed income                 | 5.5%        | 4.6%        |
| Benchmark (Lehman Aggregate) | 7.0         | 4.3         |
| Real estate                  | 12.7%       | 10.0%       |
| Benchmark (CPI+5.5%)         | 9.3         | 7.1         |

**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 had declined from 39.4% at January 1, 2005, to 37.2% at January 1, 2008. This trend has been more pronounced in recent years, but has been developing over the past twenty-seven years. The reasons for the steady decline in the funded ratio from 1981 to the present included insufficient employer and employee contributions, several early retirement programs, increased benefits and dramatic increases in the cost of health care.

Effective January 1, 2007, the retiree healthcare assets have been marked to the market value of the retiree healthcare account and are disclosed under GASB No. 43. Previously, retiree healthcare assets disclosed under GASB No. 25 were allocated in proportion to the actuarial accrued liabilities. Note that the increase in the funded ratio to 40.8% at January 1, 2007, and 37.2% at January 1, 2008, is predominantly due to this change and without this change, the funded ratio would have declined.

Public Act 95-708 made significant changes to the structure and funding of the Retirement Plan. The Act requires that the funding and liability for retiree healthcare be removed from the Retirement Plan no later than January 1, 2009. The Act also changes the eligibility for retirement benefits for CTA employees hired after January 17, 2008 and creates a separate Healthcare Trust to administer the benefits for retirees. Further, the Act gave the CTA the authority to issue debt in order to fund the Retirement Plan and the newly created Healthcare Trust.

## **Contact Information**

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

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

**RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES**

**STATEMENT OF PLAN NET ASSETS**  
*(Amounts in Thousands)*

**DECEMBER 31, 2007**  
(With Comparative Totals for 2006)

|                                                                                                                          | 2007            |                                    |              | 2006         |
|--------------------------------------------------------------------------------------------------------------------------|-----------------|------------------------------------|--------------|--------------|
|                                                                                                                          | Pension<br>Plan | Postemployment<br>Health Care Plan | Combined     | Combined     |
| <b>Assets</b>                                                                                                            |                 |                                    |              |              |
| Total investments, at fair value                                                                                         | \$ 1,044,942    | \$ 75,255                          | \$ 1,120,197 | \$ 1,221,335 |
| Receivables:                                                                                                             |                 |                                    |              |              |
| Employer contributions                                                                                                   | 3,874           | 1,291                              | 5,165        | 6,326        |
| Employee contributions                                                                                                   | 1,937           | 645                                | 2,582        | 3,163        |
| Securities sold                                                                                                          | 2,174           | 944                                | 3,118        | 78,794       |
| Accrued interest and dividends                                                                                           | 856             | 372                                | 1,228        | 1,723        |
| Other                                                                                                                    | -               | -                                  | -            | -            |
|                                                                                                                          | 8,841           | 3,252                              | 12,093       | 90,006       |
| Total assets                                                                                                             | 1,053,783       | 78,507                             | 1,132,290    | 1,311,341    |
| <b>Liabilities</b>                                                                                                       |                 |                                    |              |              |
| Payable upon return of securities loaned                                                                                 | 60,180          | 26,128                             | 86,308       | 89,809       |
| Accounts payable                                                                                                         | 14,609          | 6,343                              | 20,952       | 20,215       |
| Contribution refunds payable                                                                                             | 443             | 144                                | 587          | 558          |
| Securities purchased                                                                                                     | 1,194           | 519                                | 1,713        | 80,789       |
| Total liabilities                                                                                                        | 76,426          | 33,134                             | 109,560      | 191,371      |
| Net assets held in trust for plan benefits (A schedule of funding progress for the pension plan is presented on page 33) | \$ 977,357      | \$ 45,373                          | \$ 1,022,730 | \$ 1,119,970 |

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, 2007  
(With Comparative Totals for 2006)

|                                                | 2007              |                                    |                     | 2006                |
|------------------------------------------------|-------------------|------------------------------------|---------------------|---------------------|
|                                                | Pension<br>Plan   | Postemployment<br>Health Care Plan | Combined            | Combined            |
| <b>Additions</b>                               |                   |                                    |                     |                     |
| Net investment income                          | \$ 78,585         | \$ 34,119                          | \$ 112,704          | \$ 132,800          |
| Employer contributions                         | 25,038            | 8,731                              | 33,769              | 35,671              |
| Employee contributions                         | <u>12,549</u>     | <u>4,376</u>                       | <u>16,925</u>       | <u>17,843</u>       |
| Total additions                                | <u>116,172</u>    | <u>47,226</u>                      | <u>163,398</u>      | <u>186,314</u>      |
| <b>Deductions</b>                              |                   |                                    |                     |                     |
| Benefit payments and<br>contribution refunds:  |                   |                                    |                     |                     |
| Benefit payments                               | 197,275           | 59,671                             | 256,946             | 246,210             |
| Contribution refunds,<br>including interest    | 1,053             | 343                                | 1,396               | 1,384               |
| Administrative expenses                        | <u>1,601</u>      | <u>695</u>                         | <u>2,296</u>        | <u>2,806</u>        |
| Total deductions                               | <u>199,929</u>    | <u>60,709</u>                      | <u>260,638</u>      | <u>250,400</u>      |
| <b>Net decrease</b>                            | (83,757)          | (13,483)                           | (97,240)            | (64,086)            |
| Net assets held in trust for<br>plan benefits: |                   |                                    |                     |                     |
| Beginning of year                              | <u>1,061,114</u>  | <u>58,856</u>                      | <u>1,119,970</u>    | <u>1,184,056</u>    |
| End of year                                    | <u>\$ 977,357</u> | <u>\$ 45,373</u>                   | <u>\$ 1,022,730</u> | <u>\$ 1,119,970</u> |

See notes to financial statements.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

**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 certain 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, 2007 and 2006, the numbers of participants were:

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

1. Description of the Plan (Continued):

|                                                                                                         | <u>2007</u>   | <u>2006</u>   |
|---------------------------------------------------------------------------------------------------------|---------------|---------------|
| Retirees, disabled participants, and beneficiaries of<br>deceased retirees currently receiving benefits | 9,215         | 9,116         |
| Terminated employees entitled to benefits but<br>not yet receiving benefits                             | 47            | 41            |
| Current employees:                                                                                      |               |               |
| Vested                                                                                                  | 4,600         | 4,637         |
| Nonvested as to employer contributions                                                                  | <u>5,035</u>  | <u>5,073</u>  |
|                                                                                                         | <u>18,897</u> | <u>18,867</u> |

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.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

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.

**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.

**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. Starting in 2003, the Plan reimburses CTA for the actual retirees' health care claim costs.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

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

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, 2007, net assets held in trust for plan benefits included accumulated active employee contributions of \$195,083,418, including accumulated interest of \$43,411,963 (active employee contributions of \$180,109,806, including accumulated interest of \$39,807,350, at December 31, 2006).

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.

The funding policy was changed with Senate Bill 1977, which requires level percent of pay funding beginning in 2009 such that the Plan reaches a 90% funded ratio by the end of 2058. These provisions had no impact on the 2007 financial statements, and will be reflected in subsequent years' financial statements.

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.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

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

**General (Continued)**

The Plan's financial statement presentation follows 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*. This statement required the inclusion of a management's discussion and analysis, which is presented on pages 2 through 7.

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 the pension plan and the health care plans based on the proportionate share of average actuarial accrued liability, actual activity, or estimates that approximate actual activity of the respective plan. Net assets in the Postemployment Health Care Plan are marked to market. The Plan has adopted GASB Statement No 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

**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.

**Interest on Refunds of Participant Contributions**

Interest on refunds of participant contributions (\$552,001 in 2007; \$398,912 in 2006) 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.

**RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES**

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**YEAR ENDED DECEMBER 31, 2007**  
(With Comparative Totals for 2006)

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

**Cash, Cash Equivalents and Short-Term Investments**

Cash and cash equivalents include amounts in demand deposits and uninvested funds held by the Plan's investment managers. Short-term investments consist of debt investments, which mature within six months of the date acquired by the Plan.

**Deposits and Investments Disclosures**

The Plan has adopted GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures*. GASB 40 establishes requirements for disclosures of interest rate risk, credit risk, concentration of credit risk, and foreign currency risk. Adoption of this pronouncement had no impact on the Plan net assets and changes in Plan net assets.

**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.

**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.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

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

**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.

**Reclassifications**

Certain amounts in the 2006 notes to the financial statements have been reclassified to conform to the 2007 presentation. These reclassifications have no effect on previously reported net assets held in trust for pension benefits.

3. **Investments:**

(a) **Investment Policy**

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

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

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

3. Investments (Continued):

(b) Investment Summary

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

Fair value of combined investments at December 31, 2007 and 2006 consisted of the following (amounts in thousands):

|                                                               | <u>2007</u>         | <u>2006</u>         |
|---------------------------------------------------------------|---------------------|---------------------|
| Asset backed securities                                       | \$ 10,553           | \$ 10,401           |
| Commercial mortgage-backed securities                         | 1,999               | 4,003               |
| Corporate bonds                                               | 129,206             | 158,988             |
| Government agency securities                                  | 40,037              | 45,761              |
| Government bonds                                              | 10,526              | 9,419               |
| Government mortgage backed securities                         | 11,360              | 11,684              |
| Municipal/provincial bonds                                    | 24                  | -                   |
| Index linked government bonds                                 | -                   | 414                 |
| Non-government backed C.M.O.'s                                | 2,579               | 146                 |
| U.S. equity securities                                        | 435,879             | 522,481             |
| Foreign equity securities                                     | 67,691              | 72,313              |
| Real estate - pooled funds, equity interest,<br>and mortgages | 193,141             | 125,710             |
| Venture capital and partnerships                              | 33,879              | 75,298              |
| Cash collateral invested from securities loaned               | 86,308              | 89,809              |
| Short-term investments and currency positions                 | 22,073              | 43,583              |
| Other                                                         | <u>74,942</u>       | <u>51,325</u>       |
| Combined investments, at fair value                           | <u>\$ 1,120,197</u> | <u>\$ 1,221,335</u> |

The cost of combined investments at December 31, 2007 and 2006 was \$901,011 and \$986,980, respectively.

Combined net investment income for the years ended December 31, 2007 and 2006, consisted of the following (amounts in thousands):

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

3. **Investments (Continued):**

|                                                  | <u>2007</u>       | <u>2006</u>       |
|--------------------------------------------------|-------------------|-------------------|
| Investment Income:                               |                   |                   |
| Interest                                         | \$ 5,075          | \$ 4,238          |
| Dividends                                        | 14,267            | 16,182            |
| Miscellaneous                                    | 7,133             | 8,457             |
| Securities lending                               | 366               | 205               |
| Net appreciation in fair value of<br>investments | <u>91,379</u>     | <u>110,126</u>    |
| Total investment income                          | 118,220           | 139,208           |
| Less investment expenses:                        |                   |                   |
| Securities lending fees                          | 131               | 73                |
| Management fees and other                        | <u>5,385</u>      | <u>6,335</u>      |
| Net investment income                            | <u>\$ 112,704</u> | <u>\$ 132,800</u> |

(c) **Investment Risk Disclosure**

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

*Interest Rate Risk* – Interest rate risk is the risk that the fair value of debt securities decreases due to increases in the prevailing market interest rate. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the Plan manages its exposure to interest rate risks is by purchasing a combination of shorter term and longer term investments and by timing cash flow from maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The following table shows the segmented time distribution of the Plan's investments into time periods of maturities based on the investments cash flows.

**RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES**

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

**YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)**

**3. Investments (Continued):**

**(c) Investment Risk Disclosure (Continued)**

At December 31, 2007, the Plan had the following investments and maturities (amounts in thousands):

| Investment Type                                           | Market Value | Investment Maturities |              |               |                    |
|-----------------------------------------------------------|--------------|-----------------------|--------------|---------------|--------------------|
|                                                           |              | Less Than 1 Year      | 1 to 6 Years | 7 to 10 Years | More Than 10 Years |
| Asset backed securities                                   | \$ 10,553    | \$ -                  | \$ 507       | \$ -          | \$ 10,046          |
| Commercial mortgage-backed securities                     | 1,999        | -                     | -            | -             | 1,999              |
| Corporate bonds                                           | 129,206      | 1,275                 | 4,432        | 1,506         | 121,993            |
| Government agency securities                              | 40,037       | -                     | 4,460        | 248           | 35,329             |
| Government bonds                                          | 10,526       | -                     | 2,197        | 8,329         | -                  |
| Government mortgage backed securities                     | 11,360       | 19                    | 53           | 1,769         | 9,519              |
| Municipal/provincial bonds                                | 24           | -                     | -            | -             | 24                 |
| Non-government backed collateralized mortgage obligations | 2,579        | -                     | -            | -             | 2,579              |
| Total                                                     | \$ 206,284   | \$ 1,294              | \$ 11,649    | \$ 11,852     | \$ 181,489         |

**RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES**

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**YEAR ENDED DECEMBER 31, 2007**  
(With Comparative Total for 2006)

**3. Investments (Continued):**

**(c) Investment Risk Disclosure (Continued)**

At December 31, 2006, the Plan had the following investments and maturities (amounts in thousands):

| Investment Type                                           | Market Value | Investment Maturities |              |               |                    |
|-----------------------------------------------------------|--------------|-----------------------|--------------|---------------|--------------------|
|                                                           |              | Less Than 1 Year      | 1 to 6 Years | 7 to 10 Years | More Than 10 Years |
| Asset backed securities                                   | \$ 10,401    | \$ -                  | \$ -         | \$ 503        | \$ 9,898           |
| Commercial mortgage-backed securities                     | 4,003        | -                     | -            | -             | 4,003              |
| Corporate bonds                                           | 158,988      | 1,408                 | 6,131        | 848           | 150,601            |
| Government agency securities                              | 45,761       | -                     | 15,382       | 914           | 29,465             |
| Government bonds                                          | 9,419        | -                     | 6,372        | 2,842         | 205                |
| Government mortgage backed securities                     | 11,684       | -                     | 141          | 1,327         | 10,216             |
| Index linked government bonds                             | 414          | -                     | -            | 414           | -                  |
| Non-government backed collateralized mortgage obligations | 146          | -                     | -            | -             | 146                |
| Total                                                     | \$ 240,816   | \$ 1,408              | \$ 28,026    | \$ 6,848      | \$ 204,534         |

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

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

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

3. **Investments (Continued):**

(c) **Investment Risk Disclosure (Continued)**

| Quality Rating                    | 2007              |                            |
|-----------------------------------|-------------------|----------------------------|
|                                   | Fair Value        | Percentage<br>of Portfolio |
| AAA                               | \$ 14,559         | 7.1%                       |
| AA                                | 1,456             | 0.7%                       |
| A                                 | 1,965             | 1.0%                       |
| BBB                               | 3,773             | 1.9%                       |
| BB                                | 244               | 0.1%                       |
| Not rated                         | 12,108            | 5.7%                       |
| Total credit risk debt securities | 34,105            | 16.5%                      |
| U.S. Government and agencies      | 50,807            | 24.6%                      |
| U.S. Fixed income funds           | 121,372           | 58.9%                      |
| Total fixed income securities     | <u>\$ 206,284</u> | <u>100.0%</u>              |

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

3. **Investments (Continued):**

(c) **Investment Risk Disclosure (Continued)**

| Quality Rating                    | 2006       |                            |
|-----------------------------------|------------|----------------------------|
|                                   | Fair Value | Percentage<br>of Portfolio |
| AAA                               | \$ 14,247  | 5.9%                       |
| AA                                | 1,394      | 0.6%                       |
| A                                 | 3,484      | 1.5%                       |
| BBB                               | 3,585      | 1.5%                       |
| BB                                | 343        | 0.1%                       |
| Not rated                         | 12,145     | 5.0%                       |
| Total credit risk debt securities | 35,198     | 14.6%                      |
| U.S. Government and agencies      | 55,648     | 23.1%                      |
| U.S. Fixed income funds           | 149,970    | 62.3%                      |
| Total fixed income securities     | \$ 240,816 | 100.0%                     |

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

3. **Investments (Continued):**

(c) **Investment Risk Disclosure (Continued)**

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty's trust department or agent but not in the Plan's name. The Plan's master custodian holds all investments of the Plan in the Plan's name

*Concentration of Credit Risk* – The Plan's investment policy limits the aggregate amount that can be invested in each asset class. Domestic equity, international equity, fixed income, real estate and private equity investments are limited to 46%, 5%, 33%, 10% and 6% of the market value of the aggregate portfolio, respectively.

The following investments represent five percent or more of Plan net assets at December 31, 2007 and 2006 (amount in thousands):

|                         | <u>2007</u> | <u>2006</u> |
|-------------------------|-------------|-------------|
| ABN AMRO Inc. Plus Fund | \$ 72,322   | \$ 106,542  |

*Foreign Currency Risk* – This is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Plan had exposure to foreign currency fluctuations as follows (amounts in thousands):

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

3. Investments (Continued):

(c) Investment Risk Disclosure (Continued)

|                                | 2007              |                                    |
|--------------------------------|-------------------|------------------------------------|
|                                | <u>Fair Value</u> | <u>Percentage<br/>of Portfolio</u> |
| Total by Currency:             |                   |                                    |
| Australian Dollar              | \$ 203            | 0.8%                               |
| Canadian Dollar                | 476               | 2.0%                               |
| Swiss Franc                    | 3,098             | 12.7%                              |
| Euro Currency Unit             | 9,350             | 38.5%                              |
| British Pound Sterling         | 4,845             | 19.9%                              |
| Hong Kong Dollar               | 136               | 0.6%                               |
| Japanese Yen                   | 4,704             | 19.4%                              |
| South Korean Won               | 826               | 3.4%                               |
| Norwegian Krone                | 541               | 2.2%                               |
| Singapore Dollar               | <u>125</u>        | <u>0.5%</u>                        |
| Total foreign currency holding | <u>\$ 24,304</u>  | <u>100.0%</u>                      |
|                                |                   |                                    |
|                                | 2006              |                                    |
|                                | <u>Fair Value</u> | <u>Percentage<br/>of Portfolio</u> |
| Total by Currency:             |                   |                                    |
| Canadian Dollar                | \$ 674            | 2.4%                               |
| Swiss Franc                    | 3,206             | 11.5%                              |
| Euro Currency Unit             | 10,004            | 35.8%                              |
| British Pound Sterling         | 6,404             | 22.9%                              |
| Hong Kong Dollar               | 661               | 2.4%                               |
| Japanese Yen                   | 5,433             | 19.5%                              |
| South Korean Won               | 1,081             | 3.9%                               |
| Norwegian Krone                | <u>460</u>        | <u>1.6%</u>                        |
| Total foreign currency holding | <u>\$ 27,923</u>  | <u>100.0%</u>                      |

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

4. **Derivatives:**

The Plan's investment managers may enter into derivative transactions as permitted by their investment guidelines. A derivative financial instrument is an investment whose payoff depends upon the value of an underlying such as bond or stock prices, a market index, or commodity prices. Derivative financial instruments involve, to varying degrees, credit risk and market risk. The Plan did not invest in derivative instruments during 2007 and 2006.

5. **Securities Lending Program:**

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.

All securities loans can be terminated on demand by either the Plan or the borrower, although the average term of the loans is 144 days. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted-average maturity of 27 days. The relationship between the maturities of the investment pool and the Plan's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Plan cannot determine. The Plan cannot pledge or sell collateral securities received unless the borrower defaults.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

5. **Securities Lending Program (Continued):**

Loans outstanding as of December 31, 2007 and 2006 are as follows (amounts in thousands):

|                                                         | <u>2007</u>      | <u>2006</u>      |
|---------------------------------------------------------|------------------|------------------|
| Fair value of securities loaned for cash collateral     | \$ 84,158        | \$ 87,362        |
| Fair value of securities loaned for non-cash collateral | <u>1,664</u>     | <u>3,778</u>     |
| Total fair value of securities loaned                   | <u>\$ 85,822</u> | <u>\$ 91,140</u> |
| <br>                                                    |                  |                  |
| Fair value of cash collateral from borrowers            | \$ 86,308        | \$ 89,809        |
| Fair value of non-cash collateral from borrowers        | <u>1,714</u>     | <u>3,871</u>     |
| Total fair value of collateral from borrowers           | <u>\$ 88,022</u> | <u>\$ 93,680</u> |

6. **The Plan as Employer – Post-Employment Benefits Other Than Pensions:**

(a) **Plan Description**

The Plan administers a post-retirement healthcare plan ("Postemployment Health Care Plan"), which provides death, disability, and health benefits for eligible retirees and their spouses. Benefit provisions are established by the Plan's Board of Trustees. These benefit provisions can be modified or terminated at the sole discretion of the Board of Trustees.

(b) **Funding Policy**

The contribution requirements of plan members and the Plan are established by the collective bargaining agreement. The collective bargaining agreement in effect during 2007 and 2006 required contributions of six percent and three percent of payroll from the employer and employees, respectively, which covers both pension and healthcare benefits. The employer and employee contributions are allocated between pension and healthcare by the Plan. The allocation is based on the annual required contribution for pension and healthcare benefits for the fiscal year and is limited by Section 401(h) of the Internal Revenue Code. For 2007 contribution, approximately 1.5 percent of payroll for the Chicago Transit Authority and 0.8 percent of payroll for the employees were allocated to healthcare benefits.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

6. **The Plan as Employer – Post-Employment Benefits Other Than Pensions (Continued):**

(c) **Annual Contribution**

The Plan's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Plan's annual required contribution, actual contribution and percentage contributed (amounts in thousands):

|                              |                   |
|------------------------------|-------------------|
| Annual required contribution | <u>\$ 163,385</u> |
| Actual contributions made:   |                   |
| Employer                     | \$ 8,731          |
| Employee                     | <u>4,376</u>      |
|                              | <u>\$ 13,107</u>  |
| Percentage contributed       | <u>8%</u>         |

(d) **Funded Status and Funding Progress**

As of December 31, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$68,826,000, and the actuarial value of assets was \$45,373,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$23,453,000. The covered payroll (annual payroll of active employees covered by the Plan) was \$578,163,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.1%. Actuarial valuations of an ongoing plan involve 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, mortality, and the healthcare cost trend. Amounts determined

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

6. **The Plan as Employer – Post-Employment Benefits Other Than Pensions (Continued):**

(d) **Funded Status and Funding Progress (Continued)**

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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(e) **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 actuarial 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.

In the December 31, 2007 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an initial healthcare cost trend rate of 10% for medical benefit and 12% for prescription drug benefits. The actuarial value of assets for the Postemployment HealthCare Plan was marked to the market value of the retiree healthcare account as of January 1, 2007. In accordance with PA 95-708, the Plan will pay retiree healthcare benefits through fiscal year end December 31, 2008. Thereafter, retiree healthcare benefits will be funded through a separate Retiree Healthcare Trust. Accordingly, the unfunded actuarial accrued liability is being amortized over a one year period.

**RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES**

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**YEAR ENDED DECEMBER 31, 2007**  
(With Comparative Totals for 2006)

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

|                                    | <u>2007</u>            | <u>2006</u>     |
|------------------------------------|------------------------|-----------------|
|                                    | (Amounts in Thousands) |                 |
| <b>Investment Expenses</b>         |                        |                 |
| Reporting and monitoring           | \$ 56                  | \$ 71           |
| Real estate expenses               | 85                     | 78              |
| Investment management fees         | 4,239                  | 5,224           |
| Trustee fees                       | 545                    | 540             |
| Investment advisors                | <u>591</u>             | <u>495</u>      |
| Total investment expenses          | <u>\$ 5,516</u>        | <u>\$ 6,408</u> |
| <b>Administrative Expenses</b>     |                        |                 |
| Personal services:                 |                        |                 |
| Staff salaries and fringe benefits | <u>\$ 1,306</u>        | <u>\$ 1,375</u> |
| Professional services:             |                        |                 |
| Actuarial                          | 163                    | 158             |
| Auditing                           | 39                     | 37              |
| Data processing                    | 111                    | 416             |
| Legal                              | <u>233</u>             | <u>303</u>      |
|                                    | <u>546</u>             | <u>914</u>      |
| Communication:                     |                        |                 |
| Stationery and printing            | 12                     | 5               |
| Telephone                          | 24                     | 23              |
| Postage                            | <u>5</u>               | <u>9</u>        |
|                                    | <u>41</u>              | <u>37</u>       |
| Rentals:                           |                        |                 |
| Office space                       | 88                     | 92              |
| Equipment                          | <u>10</u>              | <u>7</u>        |
|                                    | <u>98</u>              | <u>99</u>       |

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

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

|                                  | <u>2007</u>            | <u>2006</u>     |
|----------------------------------|------------------------|-----------------|
|                                  | (Amounts in Thousands) |                 |
| Miscellaneous:                   |                        |                 |
| Seminars                         | \$ 21                  | \$ 17           |
| Supplies                         | 27                     | 12              |
| Equipment                        | 11                     | 1               |
| Insurance expense                | 232                    | 335             |
| Other                            | <u>14</u>              | <u>16</u>       |
|                                  | <u>305</u>             | <u>381</u>      |
| Combined administrative expenses | <u>\$ 2,296</u>        | <u>\$ 2,806</u> |

Costs of administering the Plan are funded by plan assets.

8. **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.

9. **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.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

10. **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.

11. **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 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.

12. **Operating Lease:**

The Plan has a lease agreement in place for office space. The lease expires December 31, 2013. The minimum future rental lease payments through December 31, 2013 for the next five years and thereafter is as follows (amount in thousands):

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED DECEMBER 31, 2007  
(With Comparative Totals for 2006)

12. **Operating Lease (Continued):**

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2008        | \$ 89         |
| 2009        | 91            |
| 2010        | 93            |
| 2011        | 95            |
| 2012        | 96            |
| Thereafter  | <u>97</u>     |
|             | <u>\$ 561</u> |

Rent paid was \$88 in 2007 and \$92 in 2006.

13. **Subsequent Events:**

Public Act 94-839, effective June 6, 2006, requires that the Plan's pension and retiree healthcare programs be separated into two distinct trusts by December 31, 2008. Public Act 94-839 changed the contribution level to a level-percent-of-pay policy that produces 90 percent funding of actuarial liabilities by fiscal year end 2059, using assumptions that are reasonable in the aggregate and the projected unit credit cost method.

Public Act 95-708, effective January 18, 2008, allows the Chicago Transit Authority to issue pension obligation bonds and deposit at least \$1.1105 billion into the pension trust. Public Act 95-708 revised the level-percent-of-pay policy, to the contribution rates that produces 60 percent funding by fiscal year end 2039, and 90 percent funding by fiscal year end 2059.

## **Required Supplementary Information**

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS – PENSION  
*(Amounts in Thousands)*

| <u>Year</u> | <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Assets<br/>(a)</u> | <u>Actuarial<br/>Accrued<br/>Liability (AAL)<br/>- Projected Unit Credit*<br/>(b)</u> | <u>Unfunded<br/>AAL<br/>(UAAL)<br/>(b-a)</u> | <u>Funded<br/>Ratio<br/>(a/b)</u> | <u>Covered<br/>Payroll<br/>(c)</u> | <u>UAAL as a<br/>Percentage of<br/>Covered Payroll<br/>((b-a)/c)</u> |
|-------------|-----------------------------------------|--------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------|-----------------------------------|------------------------------------|----------------------------------------------------------------------|
| 2007        | 1/01/08                                 | \$ 941,864                                       | \$ 2,531,440                                                                          | \$ 1,589,576                                 | 37.2%                             | \$ 578,163                         | 274.9%                                                               |
| 2006 **     | 1/01/07                                 | 1,007,305                                        | 2,466,106                                                                             | 1,458,801                                    | 40.8                              | 562,567                            | 259.3                                                                |
| 2005        | 1/01/06                                 | 810,335                                          | 2,354,125                                                                             | 1,543,790                                    | 34.4                              | 547,532                            | 282.0                                                                |
| 2004        | 1/01/05                                 | 902,117                                          | 2,291,162                                                                             | 1,389,045                                    | 39.4                              | 544,442                            | 255.1                                                                |
| 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                                                                |

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

\*\*Effective January 1, 2007, retiree healthcare assets have been marked to market value of the retiree healthcare account, and are disclosed under GASB 43. Previously, retiree healthcare assets disclosed under GASB No. 25 were allocated in proportion to actuarial accrued liabilities. This change in method in valuing retiree healthcare assets increased the funded ratio of the Plan in 2006, otherwise the 2006 funded ratio would have been decreased.

See notes to supplementary information.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER AND EMPLOYEE CONTRIBUTIONS – PENSION  
*(Amounts in Thousands)*

| <u>Year ended<br/>December 31</u> | <u>Annual Total<br/>Contribution</u> | <u>Annual Required<br/>Contribution</u> | <u>Percentage<br/>Contributed</u> |
|-----------------------------------|--------------------------------------|-----------------------------------------|-----------------------------------|
| 2007                              | \$ 37,587                            | \$ 198,457                              | 18.9%                             |
| 2006                              | 35,902                               | 194,926                                 | 18.4                              |
| 2005                              | 29,634                               | 180,227                                 | 16.4                              |
| 2004                              | 30,334                               | 153,253                                 | 19.8                              |
| 2003                              | 29,383                               | 117,305                                 | 25.0                              |
| 2002                              | 29,648                               | 97,044                                  | 30.6                              |

See notes to supplementary information.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION

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.

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 difference 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.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION

(Continued)

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, 2007        |
| Actuarial cost method      | Projected unit credit  |
| Amortization method        | Level dollar           |
| Amortization period        | 30 years               |
| Asset valuation method     | 5-year smoothed market |
| Actuarial assumptions:     |                        |
| Investment rate of return  | 8.75%                  |
| Projected salary increases | 5.25%                  |
| Cost-of-living adjustments | None                   |

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.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS – HEALTHCARE

*(Amounts in Thousands)*

| <u>Year</u> | <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Assets<br/>(a)</u> | <u>Actuarial<br/>Accrued<br/>Liability (AAL)<br/>- Projected Unit Credit<br/>(b)</u> | <u>Unfunded<br/>AAL<br/>(UAAL)<br/>(b-a)</u> | <u>Funded<br/>Ratio<br/>(a/b)</u> | <u>Covered<br/>Payroll<br/>(c)</u> | <u>UAAL as a<br/>Percentage of<br/>Covered Payroll<br/>((b-a)/c)</u> |
|-------------|-----------------------------------------|--------------------------------------------------|--------------------------------------------------------------------------------------|----------------------------------------------|-----------------------------------|------------------------------------|----------------------------------------------------------------------|
| 2007        | 1/01/08                                 | \$ 45,373                                        | \$ 68,826                                                                            | \$ 23,453                                    | 65.9%                             | \$ 578,163                         | 4.1%                                                                 |
| 2006        | 1/01/07                                 | 58,856                                           | 1,765,884                                                                            | 1,707,028                                    | 3.3                               | 562,567                            | 303.4%                                                               |

PA 95-708, effective January 18, 2008, requires the bifurcation of the Retiree Healthcare Plan from the Pension Plan no later than January 1, 2009. The liability disclosed as of January 1, 2008 reflects the estimated cash flow for fiscal year 2008 only.

See notes to supplementary information.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER AND EMPLOYEE  
CONTRIBUTIONS – HEALTHCARE

*(Amounts in Thousands)*

| <u>Year ended<br/>December 31</u> | <u>Annual Total<br/>Contribution</u> | <u>Annual Required<br/>Contribution</u> | <u>Percentage<br/>Contributed</u> |
|-----------------------------------|--------------------------------------|-----------------------------------------|-----------------------------------|
| 2007                              | \$ 13,107                            | \$ 163,385                              | 8.0%                              |
| 2006                              | 17,611                               | 95,622                                  | 18.4%                             |

See notes to supplementary information.

RETIREMENT PLAN FOR CHICAGO  
TRANSIT AUTHORITY EMPLOYEES

NOTES TO REQUIRED SUPPLEMENTARY  
INFORMATION – HEALTHCARE

1. **Actuarial Assumptions:**

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

|                                                 |                       |
|-------------------------------------------------|-----------------------|
| Valuation date                                  | January 1, 2007       |
| Actuarial cost method                           | Projected unit credit |
| Amortization method                             | Level dollar          |
| Amortization period                             | 1 year                |
| Asset valuation method                          | Market value          |
| Actuarial assumptions:                          |                       |
| Investment rate of return                       | 5%                    |
| Projected salary increases                      | N/A                   |
| Cost-of-living adjustments                      | None                  |
| Initial trend - medical                         | 10.0%                 |
| Initial trend - prescription drugs              | 12.0%                 |
| Increment - medical and prescription drugs      | N/A                   |
| Ultimate trend - medical and prescription drugs | N/A                   |