RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES

Financial Statements and Supplementary Information
For the Years Ended December 31, 2012 and 2011
With Report of Independent Auditors

RETIREMENT PLAN FOR CHICAGO
TRANSIT AUTHORITY EMPLOYEES
For the Year Ended December 31, 2012 and 2011

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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
Retirement Plan for Chicago Transit Authority Employees

Report on the financial statements

We have audited the accompanying financial statements of the Retirement Plan for Chicago Transit Authority Employees (the Plan), which comprise the statements of fiduciary net position as of December 31, 2012 and 2011, the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2012 and 2011, and the changes in its financial position for the years then ended, in conformity with U.S. generally accepted accounting principles.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of investment and administrative expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Mitchell & Titus, LLP

September 26, 2013

Management's discussion and analysis of the Retirement Plan for Chicago Transit Authority Employees (the Plan) provides an overview and analysis of the financial statements of the Plan, including highlights and comparisons for the years ended December 31, 2012, 2011 and 2010. For more detailed information regarding the Plan's financial activities, review the Plan's financial statements, including the notes and supplementary schedules.

Overview of the Financial Statements

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the U.S. as established by the Governmental Accounting Standards Board (GASB) and are described below:

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

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

- *The Notes to Financial Statements* provide additional information for a better understanding of the data provided in the financial statements. They explain the purpose of the Plan, significant accounting policies, investment details and related risks, and other relevant information.

The required supplementary information consists of a Schedule of Funding Progress, a Schedule of Employer Contributions for the Plan, as well as the related notes to discuss actuarial assumptions and methods. Such schedules provide historical trend information to aid in the analysis of the Plan's funded status for the past six years and the progress being made in accumulating sufficient assets to pay benefits when due.

- *The Schedule of Funding Progress* contains actuarial valuations of the Plan's status on 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 Contributions* contains historical trend information of employer 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 Plan and the related percentage the employer has contributed to meet its requirement.

- *The Notes to the Required Supplementary Information* provides background information and the actuarial method and assumptions used to aid in the understanding of the required supplementary schedules.

Overview of the Financial Statements *(continued)*

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

Financial Highlights

- The fiduciary net position held in trust for Plan benefits totaled approximately $1.70 billion at December 31, 2012, compared to $1.66 billion at December 31, 2011 and $1.79 billion at December 31, 2010. The fiduciary net position is available for payment of members' pensions.

- The addition to fiduciary net position for the 2012 Plan year was $279.3 million, which consisted of contribution revenue of $111.1 million, increased by net investment gain of $168.2 million. For the 2011 Plan year, the addition to fiduciary net position was $94.5 million, and consisted of contribution revenue of $107.5 million, decreased by net investment loss of $13.0 million. The addition to fiduciary net position for the 2010 Plan year was $298.8 million, which consisted of contribution revenue of $101.5 million, increased by net investment gain of $197.3 million.

- Benefit payments to retirees increased by $10.7 million in 2012, $5.5 million in 2011 and $3.6 million in 2010. Refunds of member contributions increased by $1.1 million in 2012, $700,000 in 2011, and $100,000 in 2010.

- The funded ratio of the Plan for pension benefits was 59.4% at December 31, 2012, compared to 59.2% at December 31, 2011, and 70.1% at December 31, 2010. The increase in the funded ratio at December 31 2012 was primarily due to gains in investment returns. The decrease in the funded ratio at December 31, 2011 was due to a loss in demographic experience and a loss from a change in actuarial asset valuation method from the five-year smoothed market method to the market value of asset method, which recognizes gains or losses between actual and expected investment return immediately. The decrease in the funded ratio at December 31, 2010 primarily was due to the amortization of deferred asset losses into the actuarial value of assets and the decrease in the valuation interest rate assumption to 8.50% from 8.75%.

Fiduciary Net Position

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

Fiduciary Net Position
(in millions)
As of December 31, 2012, 2011 and 2010

	2012	2011	2010	2012-2011 Change $	2012-2011 Change %
Receivables	$ 11.8	$ 12.0	$ 13.8	$ (0.2)	(1.7)%
Brokers–unsettled trades	13.0	10.7	3.0	2.3	21.5
Investments, at fair value	1,695.6	1,657.1	1,789.2	38.5	2.3
Invested securities lending collateral	250.9	234.7	244.9	16.2	6.9
Total assets	1,971.3	1,914.5	2,050.9	56.8	
Brokers–unsettled trades	13.6	12.1	6.4	1.5	12.4
Securities lending payable	250.9	234.7	244.9	16.2	6.9
Accounts payable and accrued expenses	4.0	5.5	4.9	(1.5)	(27.3)
Total liabilities	268.5	252.3	256.2	16.2	
Fiduciary net position	$ 1,702.8	$ 1,662.2	$ 1,794.7	$ 40.6	2.4%

Fiduciary net position increased by $40.6 million, or 2.4%, at December 31, 2012 compared to prior year, primarily due to favorable market conditions, which increased investments at year end by $38.5 million.

Fiduciary net position decreased by $132.5 million, or 7.4%, at December 31, 2011 compared to the prior year, primarily due to unfavorable market conditions, which decreased investments at year end by $132.1 million. Receivables, including brokers-unsettled trades, increased by $5.9 million at December 31, 2011, mainly due to year-end pending sales of securities. Liabilities decreased by $3.9 million at December 31, 2011 due to decreases in securities lending payable, which more than offset the increases in liability for year-end pending purchases of securities and accounts payable.

Fiduciary net position increased by $78.4 million, or 4.6%, at December 31, 2010 compared to the prior year, primarily due to favorable market conditions, which increased investments at year end by $78.6 million. Receivables increased by $4.4 million at December 31, 2010, mainly due to year-end pending sales of securities and contributions receivable. Liabilities increased by $4.2 million at December 31, 2010 due to increases in liability for year-end pending purchases of securities and accounts payable and accrued expenses.

Changes in Fiduciary Net Position

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

Changes in Fiduciary Net Position
(in millions)
Years Ended December 31, 2012, 2011 and 2010

				2012-2011 Change	
	2012	**2011**	**2010**	**$**	**%**
Additions					
Member contributions	$ 48.3	$ 47.2	$ 45.3	$ 1.1	2.3%
Employer contributions	62.8	60.3	56.2	2.5	4.1
Net investment gains (losses) and investment income	168.2	(13.0)	197.3	181.2	1,393.8
Total additions	279.3	94.5	298.8	184.8	
Deductions					
Annuity and disability benefits	232.4	221.7	216.2	10.7	4.8
Refunds of contributions	4.0	2.9	2.2	1.1	37.9
Administrative expenses	2.3	2.4	2.0	(0.1)	(4.2)
Total deductions	238.7	227.0	220.4	11.7	
Net increase (decrease)	$ 40.6	$ (132.5)	$ 78.4	$ 173.1	130.6%

Total additions of $279.3 million in 2012 were higher than the amounts in 2011, primarily due to an increase in the contribution rate and favorable market conditions. Total additions of $94.5 million in 2011 were lower than the amounts in 2010, primarily due to unfavorable market conditions on investments during 2011. Total additions of $298.8 million in 2010 were higher than the amounts in 2009, primarily due to an increase in the contribution rate and a higher return on investments. Active employees' rate increased to 8.65% in 2012 from 8.345% in 2011. Also, the employer contribution rate increased to 11.30% from 10.69%, net of pension bond debt service credit.

Deductions increased by $11.7 million in 2012, $6.6 million in 2011 and $3.5 million in 2010. The increases in 2012, 2011 and 2010 were mainly due to increases in annuity and disability benefits and refunds of contributions.

Plan Membership

The following table presents the changes in Plan membership as of December 31, 2012, 2011 and 2010:

	2012	2011	2010	2012-2011 Change	2012-2011 %
Retirees and beneficiaries receiving benefits	9,591	9,418	9,310	173	1.8%
Active employees	8,317	8,751	8,932	(434)	(5.0)
Terminated (inactive members) employees entitled to benefits or refunds of contributions	81	84	60	(3)	(3.6)
Total	17,989	18,253	18,302	(264)	

Funding Status

The actuarial value of assets for pension benefits under GASB Statement No. 25, as of December 31, 2012, was $1.7 billion and the actuarial liability was $2.9 billion. The actuarial value of assets increased by $40.6 million and the actuarial accrued liability increased by $59.2 million in 2012 over 2011 levels. The unfunded liability increased by $18.6 million as of December 31, 2012 as a result of favorable investment performance.

The actuarial value of assets for pension benefits under GASB Statement No. 25, as of December 31, 2011, was $1.7 billion and the actuarial liability was $2.8 billion. The actuarial value of assets decreased by $247.8 million and the actuarial accrued liability increased by $84.0 million in 2011 over 2010 levels. The funded status of the Plan decreased to 59.2% as of December 31, 2011 from 70.1% as of December 31, 2010. The decrease was due to actuarial losses in demographic experience and the change in actuarial asset valuation to the market value method.

The actuarial value of assets for pension benefits under GASB Statement No. 25, as of December 31, 2010, was $1.9 billion and the actuarial liability was $2.7 billion. The actuarial value of assets decreased by $26.9 million and the actuarial accrued liability increased by $135.7 million in 2010 over 2009 levels. The funded status of the Plan decreased to 70.1% as of December 31, 2010 from 74.8% as of December 31, 2009. The decrease was attributed to the amortization of deferred asset losses into the actuarial value of assets and the decrease in the valuation interest rate assumption to 8.50% from 8.75% per year.

Funding Status *(continued)*

Changes to the Plan from Public Act 095-0708 effectively removed the liability for retiree healthcare benefits from the Pension Plan, effective January 1, 2009. There were no Plan assets available for retiree healthcare benefits in the Retirement Plan since December 31, 2010, as the retiree healthcare liability was transferred to the CTA Retiree Health Care Plan in 2009. There were no legislative or administrative changes that affected the Plan's funding during the years ended December 31, 2012, 2011 and 2010.

Investment Activities

The Plan's fiduciary net position held for investment was $1.70 billion at year-end 2012, an increase of $38.5 million over 2011, with a total Plan rate of return of 11.3%. Domestic investment managers returned 15.9% while foreign investment managers returned 16.9%, and total fixed income returned 3.5% for the year ended December 31, 2012. The Plan's fiduciary net position held for investment was $1.66 billion at year-end 2011, a decrease of $132.5 million over 2010, with a total Plan rate of return of 3.5% for the year. Domestic investment managers returned (0.3)% while foreign investment managers returned (12.0)% for the year ended December 31, 2011. The Plan's fiduciary net position held for investment was $1.79 billion at year-end 2010, an increase of $78.4 million over 2009, with a total Plan rate of return of 12.6% for the year. Domestic investment managers returned 19.7% while foreign investment managers returned 11.6% for the year ended December 31, 2010. The fair value of the Plan's assets was impacted by the volatility of the financial markets and changes in the economy. During 2012 and 2011, the Plan's investment asset allocation stayed within its target asset allocation ranges, with 46% of assets invested in domestic equity, 5% in international equity, 10% in real estate, 6% in private equity, 11% in hedge funds, and 22% in fixed income, including 11% in stable value.

	Investment Returns Years Ended December 31, 2012, 2011 and 2010		
	2012	**2011**	**2010**
Total Plan	11.3%	3.5%	12.6%
Benchmark portfolio	12.0	1.5	11.9
Domestic equities	15.9%	(0.3)%	19.7%
Benchmark (Russell 3000)	16.4	1.0	16.9
International equities	16.9%	(12.0)%	11.6%
Benchmark (MSCI EAFE)	17.3	(12.1)	7.8
Fixed income	3.5%	7.2%	6.8%
Benchmark (Barclays Aggregate)	4.2	7.8	6.5
Real estate	11.0%	12.2%	15.5%
Benchmark (CPI+5.5% over rolling five-year periods)	7.2	8.5	7.0

Effects of Economic Factors

Funding

The Plan's funding objective is to meet long-term benefit obligations by accumulating sufficient assets through contributions and investment income. The Plan is well funded when it has sufficient assets to meet all expected future obligations to participants.

The funded ratio of the Plan was 59.4% at December 31, 2012, compared to 59.2% at December 31, 2011. The increase in the funded ratio from December 31 2011 to December 31 2012 was mainly due to favorable market conditions.

The funded ratio of the Plan was 59.2% at December 31, 2011, compared to 70.1% at December 31, 2010 and 74.8% at December 31, 2009. The decrease in the funded ratio from December 31, 2010 to December 31, 2011 was mainly due to losses from a combination of two principal factors: demographic experience and change in actuarial asset valuation method. The decrease in the funded ratio from December 31, 2009 to December 31, 2010 primarily was due to the amortization of deferred asset losses into the actuarial value of assets and the decrease in the valuation interest rate assumption to 8.50% from 8.75% per year. The steady decline in the funded ratio from 1981 to 2007 was due to insufficient employer and employee contributions, several early retirement programs, increased benefits, and dramatic health care cost increases that were paid out of the Retirement Plan prior to 2009.

Effective January 1, 2007, the retiree healthcare assets were marked to the fair market value of the retiree healthcare account and are disclosed under GASB Statement No. 43. Previously, retiree healthcare assets disclosed under GASB Statement No. 25 were allocated in proportion to the actuarial accrued liabilities. During 2009, the retiree healthcare liability was transferred from the Retirement Plan to the Retiree Health Care Plan.

Public Act 095-0708 changed the structure and funding of the Retirement Plan significantly. The Act requires that the funding and liability for retiree healthcare be removed from the Retirement Plan. The Act also changed the eligibility for retirement benefits for Chicago Transit Authority (CTA) employees hired after January 17, 2008 and created a separate Retiree Healthcare Trust to administer the benefits for retirees. Further, the Act gave the CTA the authority to issue debt in order to fund the Retirement Plan and the Retiree Healthcare Trust, created in May 2008.

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

Statements of Fiduciary Net Position

As of December 31, 2012 and 2011

(Amounts in thousands)

	2012	2011
ASSETS		
Total investments, at fair value	$ 1,695,644	$ 1,657,097
Invested securities lending cash collateral	250,856	234,653
Receivables		
Employer contributions	4,874	5,019
Employee contributions	3,666	3,924
Securities sold, but not received	12,957	10,706
Accrued interest and dividends	1,926	2,153
Other	1,347	881
	24,770	22,683
Total assets	1,971,270	1,914,433
LIABILITIES		
Payable upon return of securities loaned	250,856	234,653
Accounts payable	2,505	4,080
Other payables	1,485	1,395
Securities purchased, but not paid	13,635	12,109
Total liabilities	268,481	252,237
Fiduciary net position	$ 1,702,789	$ 1,662,196

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

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

Statements of Changes in Fiduciary Net Position

For the Years Ended December 31, 2012 and 2011

(Amounts in thousands)

	2012	2011
ADDITIONS		
Net investment income (loss)	$ 168,193	$ (13,018)
Employer contributions	62,788	60,318
Employee contributions	48,342	47,169
Other income	-	4
Total additions	279,323	94,473
DEDUCTIONS		
Benefit payments and contribution refunds		
Benefit payments	232,433	221,732
Contribution refunds, including interest	4,022	2,879
Administrative expenses	2,275	2,408
Total deductions	238,730	227,019
Net increase (decrease)	40,593	(132,546)
Fiduciary net position		
Beginning of year	1,662,196	1,794,742
End of year	$ 1,702,789	$ 1,662,196

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Accounting principles generally accepted in the U.S., as established by the Governmental Accounting Standards Board (GASB), define a financial reporting entity as consisting of the primary government and its component units for which the primary government is financially accountable. Financial accountability includes appointing a voting majority of a component unit's governing board, the ability of the primary government to impose its will on the component unit, or the potential for the component unit to provide specific financial benefits to or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for its component units that are fiscally dependent on it.

Based on the above criteria, the Retirement Plan for Chicago Transit Authority Employees (the Plan) is not a component unit of any other entity.

Basis of Accounting

The Plan's financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized as additions in the period in which employee services are performed. Benefits and refunds are recognized as deductions when paid; expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of fiduciary net position at the date of the financial statements and the actuarial information included in the required supplementary information as of the benefit information date, the changes in fiduciary net position during the reporting period and disclosures of contingent assets and liabilities at the date of the financial statements. Accordingly, actual results may differ from those estimates.

Investments

The Plan is authorized to invest in bonds, notes, and other direct obligations of the U.S. Government and U.S. Government agencies; corporate bonds, debentures, and notes; certain notes secured by mortgages (including pass-through securities); common and preferred stocks; and certain real estate funds, private equity funds, hedge funds, and stable value funds.

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

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed-income securities are valued principally using quoted market prices provided by independent pricing services. For collective investments, the net asset value is determined and certified by the investment managers as of the reporting date. Guaranteed investment contracts are valued by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuers. The pooled real estate investment funds are reported at net asset value (NAV) of shares held by the Plan at year end based on independent appraisals of underlying properties. Hedge funds, venture capital, and private equity funds do not have established market prices and are reported at NAV of shares held by the Plan at year end as estimated by money managers.

Security Transactions

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

Investment Income

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

Furniture and Office Equipment

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

Interest on Refunds of Participant Contributions

Interest on refunds of participant contributions is expensed when the refunds are recorded. Interest on accumulated contributions from continuing participants is reflected in each participant’s account annually.

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

Administrative Expenses

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

Securities Lending Transactions

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets in the statement of fiduciary net position at fair value. Securities received as collateral are reported as assets only if the Plan has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statement of fiduciary net position.

Recently Issued Accounting Pronouncements

During 2012, the Plan adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* GASB Statement No. 62 brings certain Financial Accounting Standards Board and AICPA accounting and financial reporting guidance into GASB's authoritative literature, modified to meet the needs of governmental financial statement users. The adoption of GASB Statement No. 62 did not have a material effect on the Plan's financial statements.

The Plan also adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* during 2012. GASB Statement No. 63 identifies transactions that result in consumption or acquisition of net assets in one period that are applicable to future periods. It defines those consumptions or acquisitions as deferred outflows of resources and deferred inflows of resources, respectively, and distinguishes them from assets and liabilities. GASB Statement No. 63 provides guidance for reporting deferred outflows of resources and deferred inflows of resources balances. The adoption of GASB Statement No. 63 did not have a material effect on the Plan's financial statements.

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

Recently Issued Accounting Pronouncements *(continued)*

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25.* GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of GASB Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of GASB Statement No. 67. For defined benefit pension plans, GASB Statement No. 67 specifies the required approach to measure the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Under GASB Statement No. 67, defined benefit pension plans are required to present two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB Statement No. 67 also improves financial reporting through accountability, enhanced note disclosures, and required supplementary information. Statement No. 67 will be effective for fiscal years beginning after June 15, 2013. The Plan will adopt GASB Statement No. 67 in fiscal year 2013.

Reclassifications

Certain items in the 2011 financial statements were reclassified to conform to current year presentation.

NOTE 2 PENSION PLAN

Plan Description

The following brief description of the Plan is provided for general information purposes only. Arbitration awards are periodically handed down and negotiated changes occur. Certain aspects of the Plan are now governed by Illinois state statute (40 ILCS 5/22-101). These changes can revise certain provisions of the Plan regarding the CTA, employee contributions, and employee death benefits. Those changes that have affected the Plan are summarized in the following notes. Participants should refer to the Plan document, as amended, for complete information.

NOTE 2 PENSION PLAN *(continued)*

Plan Description *(continued)*

The Plan is a single-employer contributory defined-benefit public pension plan, covering all full-time CTA permanent employees. The Plan is administered by an 11-member Board of Trustees composed of members appointed by the CTA, the Amalgamated Transit Union (ATU), the Regional Transportation Authority and a member appointed to represent the employees not represented by the ATU. The 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 recently amended, effective January 31, 2012, to comply with applicable laws. Employees who have completed one year of continuous service are eligible for participation.

At December 31, 2012 and 2011, the numbers of participants were as follows:

	2012	2011
Retirees, disabled participants, and beneficiaries of deceased retirees currently receiving benefits	9,591	9,418
Terminated employees entitled to benefits but not yet receiving benefits	81	84
Active	8,317	8,751
	17,989	18,253

NOTE 2 PENSION PLAN *(continued)*

Plan Description *(continued)*

Employees are entitled to annual pension benefits upon normal retirement at age 65, in an amount generally based on a percentage of their average annual compensation in the highest four of the 10 preceding years, multiplied by the number of years of continuous participating service. For employees retiring before December 1, 1987, the percentage was 1.65%. The agreement between the CTA and its unions, signed September 1987, raised the percentage to 1.70% and 1.75% for retirements on or after December 1, 1987 and 1989, respectively. The agreement between the CTA and its unions, signed August 1993, raised the percentage to 1.80% and 1.85% for retirements on or after January 1, 1993 and January 1, 1995, respectively. The Arbitration Award of November 12, 2003, increased the benefit multiplier for service after June 1, 1949, to 2.00% from 1.85% for employees retiring from January 1, 2000 to December 31, 2000, and to 2.15% for employees retiring on and after January 1, 2001. The multiplier for employees retiring before January 1, 2000 remained at 1.85%. During 1995, a Voluntary Early Retirement Incentive Program was offered, which provided a percentage of 2.05% for employees retiring after January 1, 1994. Employees who met the requirements for early retirement had to respond by February 28, 1995. During 1997, the Plan offered a Voluntary Early Retirement Program to eligible employees who had 25 years of continuous service on or before December 31, 1999, and had not retired prior to January 1, 1997, in the form of a retirement allowance of 2.40% for each year of continuous service, with a maximum retirement allowance of 70% of the employee’s annual compensation. All eligible employees who elected to participate were allowed to retire as soon as possible but no later than December 31, 1999.

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. In accordance with Public Act 095-0708, for all employees hired after January 17, 2008, eligibility for an unreduced pension benefit has changed to age 64 with 25 years of service. All retirees receive a monthly pension benefit. Married employees can elect to receive their pension benefits in the form of a joint and survivor option.

NOTE 2 PENSION PLAN *(continued)*

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. For years beginning January 1, 2009 through 2040, the amount of contributions to be paid by the CTA with respect to debt service on bonds issued for contribution to the Plan are treated as a credit against the amount of required contribution up to an amount not to exceed 6% of compensation.

Starting January 1, 2012, covered employees are required to contribute 8.65% of their salary to the Plan and the employer is required to contribute 17.30% of compensation less a credit for debt service of 6%, with a total net employer contribution of 11.30%. During 2011, the employee contribution rate was 8.345% of salary to the Plan and the employer was required to contribute 16.69% of compensation less credit for debt service of 6%, with a total net employer contribution of 10.69%. During 2010, the employee contribution rate was 8.35% of salary and the required employer contribution rate was 16.69% of compensation less debt service paid of 6%, with a net employer contribution of 10.69% of compensation. From Plan year 2009, the employee contribution rate was 6% of salary and the employer contribution rate was 12% of compensation less debt service paid, with a total net employer contribution of 6% after the credit. From January 18, 2008 through December 31, 2008, covered employees were required to contribute 6% of salary to the Plan and the employer was required to contribute 12% of compensation. Prior to January 18, 2008, the CTA's contribution was 6% of total compensation and the employee contribution rate was 3% of total compensation. From January 1997 to June 1997, there were no employer or employee contributions to the pension fund because of a union contract agreement, which enforced a pension holiday. Contributions resumed in July 1997.

In accordance with Public Act 095-0708 (effective January 18, 2008), the CTA issued bonds and notes in the aggregate amount of $1,348,550,000, of which net proceeds of $1,110,500,000 were deposited into the Plan during the year ended December 31, 2008. No bond proceeds were received in 2012 and 2011.

NOTE 2 PENSION PLAN *(continued)*

Death, Disability, and Other Benefits

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

An employee is eligible for a disability allowance if he or she 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.

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

A participant who is separated from service after completing 10 or more years of continuous service is not eligible for a retirement or disability allowance at separation, and elects not to receive a refund of his contributions, is entitled to receive, at normal retirement age, a deferred vested pension based on length of service and compensation to date of separation.

At December 31, 2012, fiduciary net position held in trust for plan benefits included accumulated active employee contributions of $296,803,967, including accumulated interest of $41,545,184 (active employee contributions of $264,524,466, including accumulated interest of $37,498,520, at December 31, 2011).

Funded Status and Funding Progress

According to Public Act 095-0708, beginning in 2009 and ending on December 31, 2039, if the funding ratio is projected to decline below 60% in any year before 2040, the Board of Trustees will determine the increased contribution required each year as a level percentage of payroll over the years remaining until 2040, using the projected unit credit actuarial cost method, so that the funded ratio does not decline below 60%.

NOTE 2 PENSION PLAN *(continued)*

Funded Status and Funding Progress

The funded status of the Plan as of December 31, 2012 and 2011, the most recent actuarial valuation dates, is as follows (amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/12	$ 1,702,789	$ 2,867,335	$ 1,164,546	59.4%	$ 548,515	212.3%
12/31/11	1,662,196	2,808,184	1,145,988	59.2	541,354	211.7

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of the Plan's assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2012 and 2011
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value for 2012 and 2011
Actuarial assumptions	
Investment rate of return	8.50% for 2012 and 2011
Projected salary increases	2.75% for 2011-2012, 1.50% for 2013-2014, and service-graded table with 5.0% ultimate rate after five years of service thereafter

NOTE 3 INVESTMENTS

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 returns consistent with prudent risk and investment volatility.

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.

Investment Summary

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

The following table summarizes the Plan's investments by type at December 31, 2012 and 2011 (amounts in thousands):

	2012	2011
Asset-backed securities	$ 12,534	$ 13,082
Commercial mortgage-backed securities	4,126	5,907
Corporate bonds/funds	109,896	109,715
Government agency securities/funds	99,348	103,632
Government bonds	29,024	38,631
Government mortgage-backed securities	36,146	28,584
Government issued commercial mortgage-backed securities	917	206
Municipal/provincial bonds	647	606
Guaranteed fixed income	-	402
Non-government-backed CMOs	2,680	2,179
Index-linked government bonds	-	259
Guaranteed investment contracts	-	3,381
Synthetic GIC	13,161	13,065
U.S. equities	660,584	631,379
Foreign equities	264,900	245,673
Real estate—pooled funds	127,243	120,001
Venture capital and partnerships	79,801	91,323
Short-term investments and currency positions	82,493	77,133
Hedge funds	172,144	171,939
Total investments, at fair value	$ 1,695,644	$ 1,657,097

NOTE 3 INVESTMENTS *(continued)*

Investment Summary *(continued)*

Net investment income (loss) for the years ended December 31, 2012 and 2011 consisted of the following (amounts in thousands):

	2012	2011
Investment income (loss)		
Interest	$ 17,730	$ 14,726
Dividends	20,539	18,133
Miscellaneous	149	257
Securities lending	1,320	820
Net appreciation (depreciation) in fair value of investments	137,972	(37,348)
Net investment income (loss) before investment expenses	177,710	(3,412)
Less: Investment expenses		
Securities lending fees	(330)	(205)
Management fees and other	(9,187)	(9,401)
Net investment income (loss)	$ 168,193	$ (13,018)

Investment Risks

The Plan's investments are subject to 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—The risk that the fair value of debt securities will decrease due to increases in the prevailing market interest rate. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Plan manages its exposure to interest rate risks by purchasing a combination of short- and long-term investments and by timing cash flow from maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

NOTE 3 INVESTMENTS *(continued)*

Investment Risks *(continued)*

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

At December 31, 2012, the Plan had the following investments and maturities related to certain fixed income securities (amounts in thousands):

		Investment Maturities				
Investment Type	**Market Value**	**Less Than 1 Year**	**1 to 6 Years**	**7 to 10 Years**	**More Than 10 Years**	**Not Determined**
Asset-backed securities	$ 12,534	$ -	$ 1,051	$ 4,551	$ 6,932	$ -
Commercial mortgage-backed securities	4,126	-	-	-	4,126	-
Corporate bonds/funds	109,896	1,226	20,706	11,476	4,497	71,991
Government agency securities/funds	99,348	1,507	6,995	2,739	736	87,371
Government bonds	29,024	2,251	14,267	3,716	8,790	-
Government mortgage-backed securities	36,146	-	462	2,707	32,977	-
Government issued commercial mortgage-backed securities	917	-	814	103	-	-
Municipal/provincial bonds	647	-	-	-	647	-
Guaranteed fixed income	-	-	-	-	-	-
Non-government-backed CMOs	2,680	-	-	1,183	1,497	-
Index-linked government bonds	-	-	-	-	-	-
Synthetic GIC	13,161	-	-	-	-	13,161
Total	$ 308,479	$ 4,984	$ 44,295	$ 26,475	$ 60,202	$ 172,523

NOTE 3 INVESTMENTS *(continued)*

Investment Risks *(continued)*

At December 31, 2011, the Plan had the following investments and maturities related to certain fixed income securities (amounts in thousands):

		Investment Maturities				
Investment Type	**Market Value**	**Less Than 1 Year**	**1 to 6 Years**	**7 to 10 Years**	**More Than 10 Years**	**Not Determined**
Asset-backed securities	$ 13,082	$ -	$ 1,499	$ 4,412	$ 7,171	$ -
Commercial mortgage-backed securities	5,907	-	-	-	5,907	-
Corporate bonds/funds	109,715	915	17,216	11,939	3,643	76,002
Government agency securities/funds	103,632	1,167	7,180	3,026	68	92,191
Government bonds	38,631	436	19,294	10,159	8,742	-
Government mortgage-backed securities	28,584	-	629	3,137	24,818	-
Government issued commercial mortgage-backed securities	206	-	-	206	-	-
Municipal/provincial bonds	606	-	-	-	606	-
Guaranteed fixed income	402	402	-	-	-	-
Non-government-backed CMOs	2,179	-	-	1,189	990	-
Index-linked government bonds	259	-	259	-	-	-
Synthetic GIC	13,065	-	-	-	-	13,065
Guaranteed investment contracts	3,381	3,381	-	-	-	-
Total	$ 319,649	$ 6,301	$ 46,077	$ 34,068	$ 51,945	$ 181,258

Credit Risk—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 & Poor's.

NOTE 3 INVESTMENTS *(continued)*

Investment Risks *(continued)*

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

	2012											
	AAA	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**D**	**Not Rated**	**Agencies**	**Total**
Asset-backed securities	$ 1,412	$ 1,131	$ 261	$ 249	$ 81	$ -	$ 283	$ -	$ -	$ 9,117	$ -	$ 12,534
Commercial mortgage-backed securities	2,686	-	-	-	-	-	-	-	-	1,440	-	4,126
Corporate bonds/Funds	658	2,595	12,672	18,468	1,628	-	-	-	-	73,875	-	109,896
Government agency securities/ Funds	1,360	10,138	-	76	-	-	-	-	-	403	87,371	99,348
Government bonds	-	772	-	612	-	-	-	-	-	-	27,640	29,024
Government mortgage-backed securities	-	215	-	-	-	-	-	-	-	366	35,565	36,146
Government-issued CMB	-	-	-	-	-	-	-	-	-	-	917	917
Municipal/ Provincial bonds	-	-	29	-	-	-	-	-	-	618	-	647
Guaranteed fixed income	-	-	-	-	-	-	-	-	-	-	-	-
Non-government-backed CMOs	-	321	1,166	245	25	-	371	-	287	265	-	2,680
Index-linked government bonds	-	-	-	-	-	-	-	-	-	-	-	-
Synthetic GIC	-	-	-	-	-	-	-	-	-	13,161	-	13,161
Total	$ 6,116	$ 15,172	$ 14,128	$ 19,650	$ 1,734	$ -	$ 654	$ -	$ 287	$ 99,245	$ 151,493	$ 308,479

NOTE 3 INVESTMENTS *(continued)*

Investment Risks *(continued)*

	2011											
	AAA	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**D**	**Not Rated**	**Agencies**	**Total**
Asset-backed securities	$ 2,849	$ 170	$ 724	$ -	$ 82	$ -	$ 277	$ -	$ -	$ 8,980	$ -	$ 13,082
Commercial mortgage-backed securities	5,471	-	-	-	-	-	-	-	-	436	-	5,907
Corporate bonds/funds	1,406	2,262	11,897	13,694	1,577	405	-	-	-	78,474	-	109,715
Government agency securities/ Funds	1,882	9,085	-	68	-	-	-	-	-	406	92,191	103,632
Government bonds	-	606	-	562	-	-	-	-	-	-	37,463	38,631
Government mortgage-backed securities	-	367	-	-	-	-	-	-	-	570	27,647	28,584
Government-issued CMB	-	-	-	-	-	-	-	-	-	-	206	206
Municipal/ Provincial bonds	-	-	25	-	-	-	-	-	-	581	-	606
Guaranteed fixed income	402	-		-	-	-	-	-	-	-	-	402
Non-government-backed CMOs	921	-	-	-	-	470	5	87	317	379	-	2,179
Index-linked government bonds	-	-	-	-	-	-	-	-	-	-	259	259
Synthetic GIC	-	-	-	-	-	-	-	-	-	13,065	-	13,065
GIC	-	-	-	-	-	-	-	-	-	-	3,381	3,381
Total	$ 12,931	$ 12,490	$ 12,646	$ 14,324	$ 1,659	$ 875	$ 282	$ 87	$ 317	$ 102,891	$ 161,147	$ 319,649

NOTE 3 INVESTMENTS *(continued)*

Investment Risks *(continued)*

Custodial Credit Risk—For an investment, it 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. As of December 31, 2012 and 2011, deposits of $391,000 and $238,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

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, private equity, and hedge fund investments are limited to 46%, 5%, 22%, 10%, 6%, and 11% of the fair market value of the aggregate portfolio, respectively.

There were no investments that represented 5% or more of the Plan's fiduciary net position at December 31, 2012 and 2011.

Foreign Currency Risk—This risk changes due to fluctuations in exchange rates, adversely affecting the fair value of an investment. International equity securities purchased by the Plan meet exchange listing requirements; all foreign equities held by the Plan are denominated in U.S. dollars. The Plan's exposure to foreign currency risk is as follows (amounts in thousands):

NOTE 3 INVESTMENTS *(continued)*

Investment Risks *(continued)*

Type of investment	**(US$) 2012**	**(US$) 2011**
Short-term investments and currency position		
Australian dollar	$ -	$ 6
British pound sterling	76	56
European euro	272	10
Hong Kong dollar	162	-
Japanese yen	109	170
New Israeli shekel	7	4
Norwegian krone	25	-
Singapore dollar	18	5
Swedish krona	2	-
Swiss franc	1	14
Thai baht	16	-
	$ 688	$ 265
Equities		
Australian dollar	$ 6,807	$ 4,414
Brazilian real	-	591
British pound sterling	27,005	26,161
Canadian dollar	3,664	3,293
Danish krone	1,733	-
European euro	29,115	29,780
Hong Kong dollar	22,516	19,568
Indonesian rupiah	1,359	1,240
Japanese yen	30,237	26,188
Mexican peso	1,220	1,622
New Israeli shekel	672	270
Norwegian krone	1,501	1,073
Philippine peso	833	907
Singapore dollar	6,203	5,579
South African rand	3,424	2,695
South Korean won	10,405	10,190
Swedish krona	4,845	5,289
Swiss franc	7,734	6,783
Thai baht	2,688	1,247
	$ 161,961	$ 146,890

NOTE 4 DERIVATIVES

The Plan's investment managers may enter into derivative transactions as permitted by their guidelines for hedging or risk reduction, but not for speculative purposes. A derivative financial instrument's payoff depends on the value of an underlying 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 2012 and 2011.

NOTE 5 SECURITIES LENDING PROGRAM

On July 10, 1996, the Board of Trustees 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, thereby earning additional income, which is included in net investment income (loss) on the statement of changes in fiduciary net position. Loans of securities through TNT are collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies, equal to at least 102% of the current fair value of the loaned U.S. securities and 105% of the current fair value of the loaned non-U.S. securities. There are risks associated with lending securities, with the most significant being the risk that a borrower may fail to return a portfolio security.

Additionally, the Plan would be exposed to the credit risk of the borrower should the market value of the securities loaned exceed the market value of the collateral pledged.

All securities loans can be terminated on demand by either the Plan or the borrower, although the average term of the loans is 92 days and 75 days as of December 31, 2012 and 2011, respectively. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end 2012 and 2011 has a weighted-average maturity of 45 days and 31 days, respectively. The relationship between the maturities of the investment pool and the Plan's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Plan cannot determine. The Plan cannot pledge or sell collateral securities received unless the borrower defaults.

NOTE 5 SECURITIES LENDING PROGRAM *(continued)*

Loans outstanding as of December 31, 2012 and 2011 were as follows (amounts in thousands):

	2012	**2011**
Fair value of securities loaned for cash collateral	$ 247,344	$ 228,694
Fair value of securities loaned for non-cash collateral	1,313	1,527
Total fair value of securities loaned	$ 248,657	$ 230,221
Fair value of cash collateral from borrowers	$ 250,856	$ 234,653
Fair value of non-cash collateral from borrowers	1,332	1,568
Total fair value of collateral from borrowers	$ 252,188	$ 236,221

NOTE 6 UNFUNDED INVESTMENT COMMITMENTS

The Plan had unfunded commitments of approximately $73.9 million at December 31, 2012 and $67.5 million at December 31, 2011 in connection with real estate and private equity investments.

NOTE 7 RISKS AND UNCERTAINTIES

The Plan invests in various investment securities that are exposed to various risks such as interest rate, market volatility, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. The changes could materially affect the amounts reported in the statement of fiduciary net position.

Contributions to the Plan and the actuarial information included in the required supplementary information are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these assumptions, it is reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

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

NOTE 8 PRIORITIES AT PLAN TERMINATION

While the CTA intends to maintain the Plan permanently, should the Plan terminate, the Plan's fiduciary net position held in trust for pension beenfits would be allocated and used generally to provide the following, in the order indicated:

a. Refunds of participant contributions plus interest, less benefits paid.
b. Retirement and disability benefits to participants who have retired or reached age 65 on the date of termination.
c. In the event a balance remains, it will be used to provide for reduced retirement and disability benefits for all other participants.

NOTE 9 TAX STATUS

The Internal Revenue Service (IRS) issued a letter of determination dated April 11, 2012, stating that the Plan is qualified under Section 401 of the Internal Revenue Code (the Code) and is, therefore, exempt from Federal income taxes under the provisions of Section 501(a) of the Code. The Plan is required to operate in conformity with the Code to maintain this qualification. The Plan's management is not aware of any course of action or series of events that have occurred, which may adversely affect the Plan's tax status.

NOTE 10 OPERATING LEASE

The Plan has a lease agreement in place for office space. The lease expires on December 31, 2013. At December 31, 2012, the remaining future rental lease payment is as follow (amounts in thousands):

Year	Amount
2013	$ 97

Rent and utilities paid by the Plan were $70,586 in 2012 and $82,224 in 2011. The amount of rent paid for 2012 and 2011 represents 75% of the total amount paid by the Plan. The other 25% is reimbursed by the CTA Retiree Health Care Plan based on management's expense allocation.

NOTE 11 SUBSEQUENT EVENTS

In accordance with Public Act 095-0708, the statutory minimum contribution rates applicable for 2013 are 14.25%, net of credit for debt service on pension obligation bonds for the CTA, and 10.125% for CTA employees. The statutory minimum contribution rates from 2014 to 2039 are 14.25%, net of credit for debt service on pension obligation bonds for the CTA, and 10.125% for CTA employees.

REQUIRED SUPPLEMENTARY INFORMATION

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

Schedule of Funding Progress

For the Years Ended December 31, 2012 and 2011

(Amounts in thousands)

(Unaudited)

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)
2012	1/01/13	$ 1,702,789	$ 2,867,335	$ 1,164,546	59.4%	$ 548,515	212.3%
2011*	1/01/12	1,662,196	2,808,184	1,145,988	59.2	541,354	211.7
2010**	1/01/11	1,909,967	2,724,191	814,224	70.1	528,288	154.1
2009	1/01/10	1,936,849	2,588,462	651,613	74.8	567,173	114.9
2008	1/01/09	1,995,953	2,632,356	636,403	75.8	594,139	107.1
2007***	1/01/08	941,864	2,531,440	1,589,576	37.2	571,314	278.2

* Effective January 1, 2012, the actuarial value of assets changed to market value.
** Effective January 1, 2011, the rate of return for disclosure purposes changed to 8.50% from 8.75%.
*** Effective January 1, 2008, the rate of return for disclosure purposes changed to 8.75% from 9%.

See accompanying report of independent auditors.

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

Schedule of Employer Contributions

For the Years Ended December 31, 2012 and 2011

(Amounts in thousands)

(Unaudited)

Year Ended December 31,	Employer Contribution	Annual Required Contribution	Percentage Contributed (%)
2012	$ 62,788	$ 155,600	40.4%
2011	60,318	123,158	49.0
2010	56,216	108,478	51.8
2009	41,448	118,717	34.9
2008	1,165,947	206,670	564.2
2007	25,038	198,457	12.6

See accompanying report of independent auditors.

NOTE 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	December 31, 2012 and 2011, respectively
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Amortization period	30 years
Asset valuation method	Market value for 2012 and 2011
Actuarial assumptions	
Investment rate of return	8.50% for 2012 and 2011
Projected salary increases	2.75% for 2011-2012, 1.50% for 2013-2014, and service-graded table with 5.0% ultimate rate after five years of service thereafter

See accompanying report of independent auditors.

SUPPLEMENTARY INFORMATION

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

Schedule of Investment and Administrative Expenses

For the Years Ended December 31, 2012 and 2011

(Amounts in thousands)

	2012	2011
INVESTMENT EXPENSES		
Reporting and monitoring	$ 42	$ 42
Real estate expenses	80	79
Investment management fees	7,340	7,683
Trustee fees	612	623
Other investment fees	165	-
Investment advisors	948	974
Total investment expenses	$ 9,187	$ 9,401
ADMINISTRATIVE EXPENSES		
Personal services		
Staff salaries and fringe benefits	$ 1,272	$ 1,269
Professional services		
Actuarial	53	55
Auditing	134	64
Data processing	76	88
Legal	262	216
Third-party administrator	206	466
	731	889
Communication		
Stationery and printing	23	1
Telephone	25	20
Postage and messenger	6	10
	54	31
Office and equipment		
Office space	70	82
Utilities	2	2
Equipment rental	11	9
	83	93
Insurance		
Fiduciary insurance	79	80
Miscellaneous		
Seminars and travel	7	4
Supplies	13	9
Legal research	6	5
Court reporting	15	12
Seminars for retirees	6	-
Other	9	16
	56	46
Total administrative expenses	$ 2,275	$ 2,408

See accompanying report of independent auditors.