Chicago Transit Authority

Financial Statements for the
Years Ended December 31, 1999 and 1998 and
Supplementary Information and
Independent Auditors' Report

CHICAGO TRANSIT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

We have audited the accompanying balance sheets of the Chicago Transit Authority (the "Authority"), an Illinois municipal corporation, as of December 31, 1999 and 1998, and the related statements of expenses, revenues and changes in accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued a report dated April 14, 2000 on our consideration of the Authority's internal control structure over financial reporting and tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit for the year ended December 31, 1999 was made for the purpose of forming an opinion on the 1999 financial statements taken as a whole. The accompanying information listed as Supplementary Schedule in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Authority. This information is the responsibility of the Authority's management. Such additional information has been subjected to the auditing procedures applied in our audit of the 1999 financial statements and, in our opinion, is fairly stated in all material respects in relation to those financial statements taken as a whole.

Pandolfi, Topolski, Weiss & Co. Ltd.
PANDOLFI, TOPOLSKI, WEISS & CO., LTD.

Chicago, Illinois
April 14, 2000

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CHICAGO TRANSIT AUTHORITY
BALANCE SHEETS
DECEMBER 31, 1999 AND 1998

	1999	1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 168,979,543	$ 180,121,871
Investments	7,720,000	1,620,000
Total cash and cash equivalents and investments	176,699,543	181,741,871
Grants receivable:		
Due from the RTA	74,345,461	74,389,687
Capital improvement projects from federal and state sources	19,964,832	16,733,554
Other	587,185	2,467,151
Total grants receivable	94,897,478	93,590,392
Accounts receivable	8,441,179	4,335,826
Materials and supplies	67,120,353	74,838,459
Prepaid expenses and other assets	1,534,052	1,494,053
Total current assets	348,692,605	356,000,601
OTHER ASSETS:		
Cash and investments held by trustee for supplemental retirement plan	28,050,610	29,019,909
Assets restricted for repayment of leasing commitments	1,387,917,856	1,387,627,884
Total other assets	1,415,968,466	1,416,647,793
TRANSPORTATION PROPERTY AND EQUIPMENT:		
Land	58,026,666	56,660,857
Buildings	959,270,234	919,489,884
Construction in process	25,309,421	33,678,301
Transportation vehicles	933,848,394	844,573,774
Leased rail equipment	366,159,422	366,159,422
Elevated structures, tracks, tunnels and power system	1,021,356,414	999,886,615
Signals	485,470,874	470,064,890
Other equipment	379,845,459	360,190,639
	4,229,286,884	4,050,704,382
Less accumulated depreciation	(1,838,251,458)	(1,624,176,609)
Total transportation property and equipment	2,391,035,426	2,426,527,773
TOTAL ASSETS	$ 4,155,696,497	$ 4,199,176,167

The accompanying notes to the financial statements are an integral part of this statement.

CHICAGO TRANSIT AUTHORITY
BALANCE SHEETS
DECEMBER 31, 1999 AND 1998

	1999	1998
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 55,866,163	$ 82,912,254
Current portion of self-insurance reserves	76,060,941	62,273,708
Accrued payroll, vacation pay and related liabilities	81,704,368	80,467,696
Advances, deposits and other	5,409,081	5,283,159
Current portion of payable to the RTA	-	2,170,201
Current portion of supplemental retirement plan	1,800,000	1,800,000
Current portion of capital lease obligation	104,892,722	104,530,259
Deferred passenger revenue	19,463,045	15,377,274
Deferred operating assistance	19,542,018	19,135,815
Total current liabilities	364,738,338	373,950,366
LONG-TERM LIABILITIES:		
Self-insurance reserves, less current portion	116,466,224	150,967,401
Supplemental retirement plan, less current portion	38,055,534	40,422,941
Capital lease obligation, less current portion	1,274,529,404	1,277,776,120
Accrued pension costs	322,576,045	289,487,209
Deferred revenue - leasing transactions	71,332,667	75,594,875
Other long-term liabilities	20,000	1,520,000
Total long-term liabilities	1,822,979,874	1,835,768,546
Total liabilities	2,187,718,212	2,209,718,912
EQUITY:		
Contributed capital	2,397,929,658	2,426,786,406
Accumulated deficit	(429,951,373)	(437,329,151)
Total equity	1,967,978,285	1,989,457,255
TOTAL LIABILITIES AND EQUITY	$ 4,155,696,497	$ 4,199,176,167

The accompanying notes to the financial statements are an integral part of this statement.

CHICAGO TRANSIT AUTHORITY

STATEMENTS OF EXPENSES, REVENUES AND CHANGES IN ACCUMULATED DEFICIT
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
OPERATING EXPENSES:		
Labor and fringe benefits	$ 612,461,201	$ 612,678,356
Materials and supplies	73,423,734	73,341,784
Fuel	12,480,466	11,095,497
Electric power	16,569,862	20,806,724
Maintenance and repairs, utilities, rent and other	87,772,101	91,732,332
	802,707,364	809,654,693
Provisions for injuries and damages	(4,211,887)	13,366,274
Provisions for depreciation	231,348,849	224,040,991
	1,029,844,326	1,047,061,958
SYSTEM-GENERATED REVENUES:		
Fare box revenue	310,198,631	341,259,447
Pass revenue	55,753,403	22,268,277
	365,952,034	363,527,724
Reduced fare subsidies	16,840,179	17,400,000
Advertising and concessions	16,819,957	14,932,921
Contributions from local government agencies	5,000,000	5,000,000
Other revenue	5,529,356	12,529,869
Investment revenue	10,408,209	25,007,201
	420,549,735	438,397,715
Operating expenses in excess of system-generated revenues	(609,294,591)	(608,664,243)
PUBLIC FUNDING FROM RTA:		
Operating assistance	384,403,559	365,057,984
Net loss from operations	(224,891,032)	(243,606,259)
NONOPERATING REVENUE (EXPENSE):		
Recognition of leasing transaction proceeds	4,262,208	3,891,067
Interest revenue from leasing transactions	104,820,256	95,233,718
Interest expense from leasing transactions	(101,646,031)	(92,824,876)
Net loss	(217,454,599)	(237,306,350)
ADD CREDIT ARISING FROM TRANSFER OF PROVISION FOR DEPRECIATION OF TRANSPORTATION PROPERTY AND EQUIPMENT ACQUIRED THROUGH CAPITAL GAINS	224,832,377	217,776,112
INCREASE IN ACCUMULATED DEFICIT	7,377,778	(19,530,238)
ACCUMULATED DEFICIT- Beginning of year, as restated	(437,329,151)	(417,798,913)
ACCUMULATED DEFICIT - End of year	$ (429,951,373)	$ (437,329,151)

The accompanying notes to the financial statements are an integral part of this statement.

CHICAGO TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating expenses in excess of system-generated revenues	$ (609,294,591)	$ (608,664,243)
Adjustments to reconcile operating expenses in excess of system-generated revenues to net cash from operating activities:		
Depreciation	231,348,849	224,040,991
Unrealized (gain) loss on investments	578,352	(3,611,955)
Investment revenue	(10,986,561)	(21,395,246)
Contributions from local governmental units	(5,000,000)	(5,000,000)
(Increase) decrease in assets:		
Accounts receivable	(4,105,353)	947,684
Materials and supplies	7,718,106	14,808,064
Prepaid expenses and other assets	(40,000)	(520,095)
Supplemental retirement plan assets	969,300	(4,842,040)
Grants receivable	(1,307,086)	(2,920,364)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(27,046,091)	5,556,601
Accrued payroll, vacation pay and related liabilities	1,236,671	4,267,480
Self-insurance reserves	(20,713,945)	(3,070,831)
Deferred passenger revenue	4,085,771	(1,974,184)
Advances, deposits and other	125,922	(1,809,677)
Deferred operating assistance	406,203	12,196,185
Accrued pension costs	33,088,836	43,669,209
Other long-term liabilities and supplemental retirement plan	(3,867,406)	14,304,667
Net cash flows used in operating activities	(402,803,023)	(334,017,754)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating assistance from the RTA	384,403,558	365,057,984
Contributions from local governmental agencies	5,000,000	5,000,000
Payments to the RTA	(2,170,021)	(3,202,764)
Proceeds from lease transactions	0	16,498,905
Net cash flows provided by noncapital financing activities	387,233,537	383,354,125
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Payments for acquisition and construction of assets	(195,926,463)	(144,468,232)
Capital grants	196,045,412	135,703,702
Net cash flows provided by (used in) capital financing activities	118,949	(8,764,530)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(7,720,000)	(1,620,000)
Proceeds from redemption of maturity of investments	1,620,000	1,720,000
Investment revenue	10,408,209	21,395,246
Net cash flows provided by investing activities	4,308,209	21,495,246
NET INCREASE IN CASH AND CASH EQUIVALENTS	(11,142,328)	62,067,087
CASH AND CASH EQUIVALENTS - Beginning of year	180,121,871	118,054,784
CASH AND CASH EQUIVALENTS - End of year	$ 168,979,543	$ 180,121,871

The accompanying notes to the financial statements are an integral part of this statement.

1. ORGANIZATION

The Chicago Transit Authority ("CTA" or the "Authority") was formed in 1945 pursuant to the Metropolitan Transportation Authority Act passed by the Illinois Legislature. The CTA was established as an independent governmental agency (an Illinois municipal corporation) "separate and apart from all other government agencies" to consolidate Chicago's public and private mass transit carriers. The City Council of the City of Chicago has granted the CTA the exclusive right to operate a transportation system for the transportation of passengers within the City of Chicago.

The Regional Transportation Authority Act (the "Act") provides for the funding of public transportation in the six-county region of Northeastern Illinois. The Act established a regional oversight board Regional Transportation Authority ("RTA") and designated three service boards (CTA, Commuter Rail Board and Suburban Bus Board). The Act requires, among other things, that the RTA approve the annual budget of the CTA, that the CTA obtain agreement from local governmental units to provide an annual monetary contribution of at least $5,000,000 for public transportation and that the CTA (collectively with the other service boards) finance at least 50% of its operating costs, excluding depreciation and certain other items, from system-generated sources on a budgetary basis.

Financial Reporting Entity - Based on the application of Governmental Accounting Standards Board ("GASB") Statement No. 14, entitled "The Financial Reporting Entity," funds held in a separate non-trusted account for the Supplemental Retirement Plans are included in the reporting entity. However, the fund established for the Employees' Retirement Plan has been determined not to be part of the reporting entity. This fund is a legal entity separate and distinct from the CTA. This fund is administered by its own oversight committee, of which the CTA appoints half the members, and over which the CTA has no direct authority. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

Based upon the criteria set forth in GASB No. 14, the CTA is not considered a component unit of the RTA because the CTA maintains separate management, exercises control over all operations, and is fiscally independent from the RTA. Because governing authority of the CTA is entrusted to the Chicago Transit Board comprised of four members appointed by the Mayor of the City of Chicago and three members appointed by the Governor of the State of Illinois, the CTA is not financially accountable to the RTA and is not included as a component unit in the RTA's financial statements, but is combined in proforma statements with the RTA as statutorily required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation **-** The operations of the CTA are accounted for on a proprietary fund basis. This basis is used when operations are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, and the periodic determination of revenues earned, costs incurred, and net income (loss) is appropriate. The Authority follows all applicable Governmental Accounting Standards Board ("GASB") Statements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Estimates **-** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Basis of Accounting and Measurement Focus **-** The accounts of the CTA are reported using the "flow of economic resources" (cost of services) measurement focus and the accrual basis of accounting. Under the "flow of economic resources" measurement focus, all assets and liabilities are included on the balance sheet. Fund equity consists of contributed capital and accumulated deficit. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Fare Box and Pass Revenues **-** Fare box and pass revenues are recorded as revenue at the time services are performed and revenues pass through the fare box.

Investments **-** Investments, including the supplemental retirement plan assets, are stated at fair market value in accordance with GASB Statement No. 31.

Chapter 30, Paragraph 235/2 of the Illinois Compiled Statutes authorizes the CTA to invest in obligations of the United States Treasury and United States agencies, direct obligations of any bank, repurchase agreements, commercial paper rated within the highest classification set by two standard rating services, or money market mutual funds investing in obligations of the United States Treasury and United States agencies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Materials and Supplies **-** Materials and supplies inventories are stated at the lower of cost or market value. The CTA uses the average cost method to determine the cost of such inventories.

Transportation Property and Equipment **-** Transportation property (including major improvements) and equipment are recorded at cost, less accumulated depreciation. The cost of maintenance and repairs is charged to operations as incurred. The provision for depreciation of transportation property and equipment is calculated under the straight-line method at amounts based on the respective estimated useful lives of major asset classifications, as follows:

	Years
Buildings	40
Elevated structures, tracks, tunnels and power system	20-40
Transportation vehicles:	
Bus	12
Rail	25-33
Signals	10-20
Other equipment	5-10

The transportation system operated by the CTA includes certain facilities owned by others. The CTA has the exclusive right to operate these facilities under the terms of the authorizing legislation and other agreements.

Cash Overdraft **-** The CTA had a cash overdraft of $11,895,125 at December 31, 1998. This overdraft is recorded in accounts payable and accrued expenses.

Self-insurance **-** The CTA provides for the present value of the self-insurance programs for public liability and property damage, workers' compensation and health benefit claims as more fully described in Note 6. The RTA, as authorized under the Joint Self-Insurance Fund (the "Fund") described in Note 6, provides excess liability insurance to protect the self-insurance programs currently maintained by the CTA. Claims are recorded in the year of occurrence. The public liability and property damage program is administered by the CTA. The health benefit and workers' compensation programs are administered primarily by a third-party administrator for a service fee.

A liability for each self-insured risk is provided based upon the present value of the estimated ultimate cost of settling claims using a case-by-case review and historical experience. A liability for claims incurred but not reported is also provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The estimate for injury and damage claims is adjusted for a current trend rate and discount factor of 5% and 5%, respectively. The estimate for workers' compensation claims is adjusted for a combined current trend rate and discount factor of 5% and 5.5%, respectively.

In 1997, the Authority adopted GASB Statement No. 30, "Risk Financing Omnibus," which provides guidance for calculating the liability for self-insurance programs. GASB Statement No. 30 requires the liability for self-insurance programs to be based on the estimated cost of settling the claims. Estimated claims should include specific incremental claim adjustment expenditures which are incurred solely because of the claims. Estimated recoveries on unsettled claims should also be evaluated in terms of their estimated realizable value and deducted from the liability. Based on the valuations as performed by the Authority's actuaries and Authority management, the effect of adoption of GASB Statement No. 30 was not significant on the Authority's self-insurance programs.

***Compensated Absences* -** Substantially all employees receive compensation for vacations, holidays, illness and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave which has been earned but not paid has been accrued in the accompanying financial statements. Compensation for holidays, illness and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts either do not accumulate or they do not vest.

Under GASB Statement No. 16, entitled "Accounting for Compensated Absences," applicable salary-related employer obligations are accrued in addition to the compensated absences liability. This amount is recorded as a portion of the accrued payroll, vacation pay and related liabilities on the balance sheet.

***Retirement Plan* -** The CTA has a retirement plan for all nontemporary, full-time employees with service greater than one year. Pension expense recorded by the CTA includes a provision for current service costs and the amortization of past service cost over a period of approximately 40 years.

Cash and Cash Equivalents - Cash and cash equivalents include deposits and other investments with maturities, when purchased, of three months or less.

***Prior Year Reclassifications* -** Certain reclassifications have been made in prior year amounts to conform to current year presentations.

3. BUDGET AND BUDGETARY BASIS OF ACCOUNTING

The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with generally accepted accounting principles, except for the exclusion of certain income and expenses. For 1999, these amounts include investment income, depreciation expense, incentive retirement compensation payments in excess of expense, pension expense in excess of pension contributions and deferred revenue from leasing transactions. The CTA's actual expenses on a budgetary basis were greater than budgeted expenses after amendment by $9,097,293 and $32,385,470 in 1999 and 1998, respectively.

The Act requires that expenditures for operations and maintenance in excess of budget cannot be made without approval of the Chicago Transit Board. All annual appropriations lapse at fiscal year-end. The RTA, in accordance with the RTA Act, has approved for budgetary basis presentation the CTA's recognition of the amount of the injury and damage reserve and pension contribution, funded by the RTA in the approved annual budget. Provisions in excess of the approved annual budget will be unfunded and are excluded from the recovery ratio calculation.

The RTA funds the budgets of the service boards rather than the actual operating expenses in excess of system-generated revenue. Favorable variances from budget remain as deferred operating assistance to the CTA, and can be used in future years with RTA approval.

The RTA approves the proposed budget based on a number of criteria:

> That the budget is in balance with regard to anticipated revenues from all sources, including operating subsidies and the costs of providing services and funding operating deficits;
>
> That the budget provides for sufficient cash balances to pay, with reasonable promptness, costs and expenses when due;
>
> That the budget provides for the CTA to meet its required system-generated revenue recovery ratio; and
>
> That the budget is reasonable, prepared in accordance with sound financial practices and complies with such other RTA requirements as the RTA Board of Directors may establish.

3. BUDGET AND BUDGETARY BASIS OF ACCOUNTING (Continued)

The RTA monitors the CTA's performance against the budget on a quarterly basis. If, in the judgment of the RTA, this performance is not substantially in accordance with the CTA's budget for such period, the RTA shall so advise the CTA and the CTA must, within the period specified by the RTA, submit a revised budget to bring the CTA into compliance with the budgetary requirements listed above.

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

The majority of CTA's deposits and investments are held by the CTA's custodial bank covered by a master trust agreement. Under this agreement, the custodial bank or its agent holds all instruments in the CTA's name. Deposits and investments of the supplemental retirement plan and assets restricted for repayment of leasing commitments are held separately from those of the CTA's custodial bank.

The CTA maintained designated cash and investment balances of $40.4 million and $34.7 million at December 31, 1999 and 1998, respectively, to fund the annual injury and damage obligations under provisions of Section 39 of the Metropolitan Transportation Authority Act. Management indicates that the CTA will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

***Deposits* -** The carrying amounts of CTA's cash and deposits were ($13,169,523) and $5,007,375 at December 31, 1999 and 1998, respectively. The bank balances for these cash and deposits were fully insured by the Federal Depository Insurance Corporation or collateralized by securities held in CTA's name by a third party.

***Assets Restricted for Repayment of leasing Commitments* -** As discussed in Note 9, the CTA maintains a separate account for cash and investments to be used for future payments related to certain leasing transactions.

***Investments* -** Illinois statutes authorize the CTA to invest in obligations of U.S. Treasury agencies, direct obligations of any bank, repurchase agreements, commercial paper rated within the highest classification set by two standard rating services, or money market and mutual funds investing in obligations of the U.S. Treasury and U.S. Agencies. The deferred compensation plan investments at December 31, 1999, are not included in the financial statements per implementation of GASB Statement No. 32.

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments at December 31, 1999 and 1998 consisted of the following:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
U.S. Government issues	$ 104,058,842	$ 104,058,842	$ 83,166,156	$ 83,458,644
Repurchase agreements	29,600,000	29,600,000	37,500,000	38,501,826
Commercial paper	52,019,264	52,019,264	54,264,488	54,584,248
Mutual funds	32,241,570	32,241,570	30,823,761	30,823,761
Total	$ 217,919,676	$ 217,919,676	$ 205,754,405	$ 207,368,479

Collateralization of Investments at December 31, 1999 is as follows:

	Category			Carrying
	1	2	3	Amount
Repurchase Agreements	$ 29,600,000	-	$ -	$ 29,600,000
Commercial Paper	-	$ 52,019,264	-	52,019,264
U.S. Government Securities	-	104,058,842	-	104,058,842
Total Categorized Investments	$ 29,600,00	$ 156,078,106	$ -	185,678,106
* Mutual Funds				32,241,570
Total Investments				$ 217,919,676

*(Not Subject to Risk Categorization)

GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," was implemented by the Authority in fiscal year 1998. The Authority reported all investments at fair value in the balance sheet and market gains in the statement of expenses and revenues for fiscal year 1999. In fiscal year 1998 the Authority reported money market investments, which include commercial paper and U.S. Treasury and agency obligations, that mature within one year or less of the date of their acquisition at amortized cost, which reasonably approximates fair value.

A reconciliation of the balance sheets to amounts presented in Note 4 is as follows:

	1999	1998
Cash and cash equivalents	$ 168,979,543	$ 180,121,871
Investments	7,720,000	1,620,000
Cash and investments held by trustee for supplemental retirement plan	28,050,610	29,019,909
Total	$ 204,750,153	$ 210,761,780

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

	1999	1998
Cash and deposits	$ (13,169,523)	$ 5,007,375
U.S. Government issues	104,058,842	83,166,156
Repurchase agreements	29,600,000	37,500,000
Commercial paper	52,019,264	54,264,488
Mutual funds	32,241,570	30,823,761
Total	$204,750,153	$210,761,780

Supplemental Disclosure of Noncash Investing and Financing Activities **-** As described in Note 9, the CTA has entered into various lease transactions with third parties since 1995. The current and long-term portion of payables under the lease transactions are $104,892,722 and $1,274,529,404, respectively as of December 31, 1999.

There were no significant cash interest payments made during 1999 and 1998. The CTA retired $17.4 million and $8.7 million in fully depreciated transportation property and equipment during 1999 and 1998, respectively.

5. BUDGETED PUBLIC FUNDING FROM THE REGIONAL TRANSPORTATION AUTHORITY AND THE STATE OF ILLINOIS

As discussed in Note 1, the Act established the RTA as a regional oversight board and defined the sources of funding to the RTA. Under the Act, each service board is entitled to a portion of the funds collected by the RTA. The allocation of these funds to each service board is based on various methods as defined in the Act. The components of budgeted operating funding from the RTA were as follows:

	1999	1998
FTA operating assistance	$ -	$ 4,389,000
Illinois state sales tax allocation	235,455,000	224,792,000
Public Transportation Fund/RTA discretionary funding	149,355,000	148,084,000
Total	$ 384,810,000	$ 377,265,000

Reduced fare subsidies received from the State of Illinois were $16.8 million and $17.4 million for 1999 and 1998, respectively, for discounted services provided to the elderly, disabled, or student riders.

6. INJURY AND DAMAGE, GROUP HEALTH AND WORKERS' COMPENSATION SELF-INSURANCE PROGRAMS

Chapter 70, Paragraph 3605/39 of the Illinois Compiled Statutes requires the CTA to establish an injury and damage reserve in order to provide for the adjustment, defense, and satisfaction of all suits, claims, and causes of action, and the payment and satisfaction of all judgments entered against the CTA for damages caused by injury to or death of any person and for damages to property resulting from the construction, maintenance and operation of the transportation system. The statute also requires the CTA to separately fund the current year's budgeted provision for the injury and damage reserve. See Note 4 regarding amounts maintained in this account.

Changes in the self-insurance accounts were as follows:

	Injury and Damage	Group Health	Workers' Compensation	Total
Balance at December 31, 1997	$ 163,015,486	$ 19,345,980	$ 33,950,474	$ 216,311,940
Provision:				
Funded	42,000,000	61,639,966	12,405,048	116,045,014
Over funded	(28,633,726)	-	-	(28,633,726)
Payments	(18,006,980)	(58,482,439)	(13,992,700)	(90,482,119)
Balance at December 31, 1998	158,374,780	22,503,507	32,362,822	213,241,109
Provision:				
Funded	31,000,000	67,382,382	13,703,494	112,085,876
Over funded	(35,211,887)	-	-	(35,211,887)
Payments	(23,662,893)	(58,074,948)	(15,850,092)	(97,587,933)
Balance at December 31, 1999	$ 130,500,000	$ 31,810,941	$ 30,216,224	$ 192,527,165

6. INJURY AND DAMAGE, GROUP HEALTH AND WORKERS' COMPENSATION SELF-INSURANCE PROGRAMS (Continued)

The RTA provides excess liability insurance to protect the self-insurance programs currently maintained by the CTA. The insurance covers the CTA for injury and damage claims up to $45 million per occurrence and in the aggregate, with a $5 million deductible. At December 31, 1999 and 1998, no claim existed that would have been submitted under this insurance policy.

The CTA participates in a Joint Self-Insurance Fund (the "Fund") with the RTA that permits the CTA to receive monies necessary to pay injury and damage claims in excess of $2.5 million per occurrence up to a maximum of $47.5 million from the Fund. The CTA is obligated to reimburse the Fund for any damages paid plus a floating interest rate which is calculated at 5.17% and 5.34% per annum for the years ended December 31, 1999 and 1998, respectively. However, reimbursement payments, including interest, cannot exceed $3.5 million in any one year. No borrowings were made from the Fund in fiscal year 1999 to pay injury and damage claims.

7. EMPLOYEES' DEFERRED COMPENSATION PLAN

The CTA offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan, available to all CTA employees, permits deferral of a portion of compensation until future years. The deferred amount is not available to employees until termination, retirement, death, or unforeseeable emergency.

Section 1448 of the Small Business Jobs Protection Act of 1996 amended provisions of Internal Revenue Code Section 457 such that the CTA has placed all assets and income of the plan into a separate trust for the exclusive benefit of participants as of October 1, 1998. As a result, such amounts are no longer subject to the claims of the Authority's general creditors, and neither deferred compensation plan assets nor liabilities are presented on the balance sheet per implementation of GASB Statement No. 32.

Participating employees may request that their deferred compensation be invested, at the discretion of the CTA, in any of several investment funds.

8. TRANSPORTATION PROPERTY AND EQUIPMENT

The CTA has capital grant contracts with federal, state and regional agencies including the U.S. Department of Transportation, Federal Transit Administration (“FTA”), the State of Illinois Department of Transportation ("IDOT") established under the Transportation Bond Act, and the RTA. Under these contracts, the CTA has acquired rapid transit cars and buses and is constructing, renewing and improving various portions of track structures, and related operating facilities and systems. It is anticipated that the FTA will finance approximately 80% of the total cost of these projects, with the balance of the cost being financed principally by IDOT and the RTA. Commitments of approximately $480.3 million have been entered into for federal and state (including local) capital grant contracts as of December 31, 1999.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA or IDOT. Commitments of approximately $129.9 million have been entered into for these federal and state (including local) capital grants as of December 31, 1999.

Funding sources for transportation property and equipment of the CTA are as follows:

	1999	1998
Funding source:		
Federal (FTA)	$ 2,665,344,924	$ 2,544,928,517
State (principally IDOT)	418,431,199	399,674,807
RTA	764,316,452	723,457,441
CTA (generally prior to 1973)	126,572,636	126,572,636
Other	254,621,673	256,070,981
Total	$ 4,229,286,884	$ 4,050,704,382

9. LEASING TRANSACTIONS

During 1998, the Authority entered into a lease/leaseback agreement (the “1998 Agreement”) with a third party pertaining to a rail line (“green line”), with a book value of $386.9 million at December 31, 1999. The 1998 Agreement, which provides certain cash and tax benefits to the third party, also provides for a trust established by the Authority to lease the rail line to an equity investor trust (“the 1998 Equity Trust”), which would then lease the facilities back to another trust established by the Authority under a separate lease (the “1998 Lease”). Under the 1998 Lease, the Authority is required to make the payments of $14,604,524 for 2000, $23,016,047 for 2001 through 2002, $27,113,279 for 2003 and $35,191,135 for 2004. At December 31, 1999, the total payments due under the agreement are recorded as capital lease obligations of approximately $297.5 million.

9. LEASING TRANSACTIONS (Continued)

During 1997, the Authority entered into four lease/leaseback agreements (the "1997 Agreements") with a third party pertaining to certain of its facilities having a book value of $68.3 December 31, 1999. The 1997 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the Authority to lease the facilities to an equity investor trust (the "Equity Trust"), which would then lease the facilities back to another trust established by the Authority under separate leases (the "Leases").

During 1997, the CTA received certain funds as prepayment by the Equity Trust. The funds have been deposited in designated investment accounts sufficient to meet the payments required under the Leases, and are recorded as assets restricted for repayment of leasing commitments. The Equity Trust has a security interest in the deposits to guarantee the payments due by the Authority and may take possession of the facilities upon a default by the CTA under the Lease. Under the Leases, the Authority is required to make annual rental payments of $12.8 million during the years 2000 through 2001, and of $10.4 million, $15.4 million, and $12.1 million during the years 2002, 2003, and 2004, respectively. One of the Leases also requires a payment at the end of the initial term (in the year 2024) of $129.5 million, which is due on the same day as the only remaining payment due from the Equity Trust of $111.5 million. The additional three Leases require a payment at the end of the initial terms (in the year 2025) of $458.1 million, which is due on the same day as the only remaining payment due from the Equity Trust of $395.4 million. The present value of the future payments to be made by CTA under the leases (net of the payment due from the Equity Trust in 2022 and 2023) of approximately $69.4 million is reflected in the accompanying December 31, 1999 balance sheet as capital lease obligations.

In connection with the 1997 Agreements, the Authority also received proceeds of $11.9 million. The FTA has approved the Authority's right to the benefit received from these transactions. The Authority has elected to defer recognition of the proceeds over the remaining 26- and 27-year lives of the leases.

During 1996, the Authority entered into similar lease/leaseback agreements (the "1996 Agreements") with a third party pertaining to certain of its facilities, with a book value of $69.7 million at December 31, 1999. The 1996 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the Authority to lease the facilities to an equity investor trust (the"1996 Equity Trust"), which would then lease the facilities back to another trust established by the Authority under a separate lease (the "1996 Lease").

9. LEASING TRANSACTIONS (Continued)

Under the 1996 Lease, the Authority is required to make annual rental payments of $12.6 million during the years 2000 through 2002 and a $7.8 million payment in the year 2004. The 1996 Lease also requires a payment at the end of the initial term (in the year 2024) of $653.5 million, which is due on the same day as the only remaining payment due from the 1996 Equity Trust of $550.8 million. The present value of the future payments to be made by CTA under the leases (net of the payment due from the 1996 Equity Trust in 2024) of approximately $56.7 million is reflected in the accompanying December 31, 1999 balance sheet as capital lease obligations.

In connection with the 1996 Agreements, the Authority also received proceeds of $10.9 million and agreed to make approximately $80 million of improvements to one of the facilities. The FTA has approved the Authority's right to the benefit received from these transactions. The Authority has elected to defer recognition of the proceeds over the remaining 27-year life of the leases.

During 1995, the Authority entered into sale/leaseback agreements (the "1995 Agreements") with third parties. The 1995 Agreements provided for the Authority to sell and lease back certain rail equipment totaling $487,103,405 at cost for a period of nineteen years beginning on the date of the respective transaction. At December 31, 1999, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling $955.7 million. The Authority has deposited funds into designated cash and investment accounts sufficient to meet all of its payment obligations throughout the terms of the leases, and recorded such amounts as assets restricted for repayment of leasing commitments.

10. DEFINED BENEFIT PENSION PLANS

***Plan Descriptions* -** The CTA maintains a trusteed, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees and Chicago Transit Board members. The Employees' Retirement Plan (the "Employees' Plan") is governed by the terms of the employees' collective bargaining agreement. The CTA also maintains a separate, nontrusteed plan for selected individuals. The Supplemental Retirement Plan, which includes the Retirement Plan for Board Members and the Supplemental Retirement Plan for selected Officers, Executives, Supervisory and Professional Employees (the "Supplemental Plan"), provides benefits in addition to the Employees' Plan to management employees in certain employment classifications and Chicago Transit Board members. As of December 31, 1999 and 1998, Supplemental Retirement Plan assets include cash and investments of $28,050,610 and $29,019,909, respectively.

10. DEFINED BENEFIT PENSION PLANS (Continued)

Substantially all nontemporary, full-time employees who have completed one year of continuous service are covered by the Employees' Plan. Employees who retire at or after age 65 (or after completion of 25 years of continuous service with full benefits or at age 55 with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service. The Employees' Plan also provides death, disability and hospitalization benefits. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

The covered payroll for the Employees' Plan for 1999 and 1998 was $425,159,210 and $406,444,341, respectively. The covered payroll for the Supplemental Plan for 1999 and 1998 was $14,639,322 and $14,048,754, respectively. The CTA's total payroll in 1999 and 1998 was $479,011,770 and $463,218,009, respectively.

The CTA has adopted GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," for the Plans. GASB Statement No. 27 requires the accrued pension liability be calculated as the cumulative difference, including interest, between the employer's required contributions in accordance with the Plans' actuarially required contribution funding requirements and the actual contributions made by the employer for all fiscal years beginning after December 15, 1986 and through the date of transition.

Funding Policy and Annual Pension Cost - Contribution requirements of the Plans may be amended by the Board of Trustees of the Plans. The CTA's annual pension cost for the current year and related information for each plan is as follows:

	Employees' Plan	Supplemental Plan
Contribution rates:		
CTA	6%	Actuarially determined
Plan members	3%	Actuarially determined
Annual pension cost (APC)	$ 72,911,632	$ 3,507,394
Actual contributions:		
CTA	$ 25,588,067	$ 3,762,434
Plan members	12,747,520	29,414
Actuarial valuation date	January 1, 2000	December 31, 1999
Actuarial cost method	Entry Age Normal Cost	Projected Unit Credit
Remaining amortization period	40	40
Asset valuation method	4-year smoothed market	Fair market value
Actuarial assumptions:		
Investment rate of return	9.0%	9.0%
Projected salary increases	5.5%	5.0%

10. DEFINED BENEFIT PENSION PLANS (Continued)

There were no significant assumption changes for either plan from the prior year valuation. The following represents the significant components of the APC and changes in Net Pension Obligation (NPO) during the year ended December 31, 1999:

	Employees' Plan	Supplemental Plan
NPO - December 31, 1998	$ 288,000,000	$ 26,648,951
Annual required contribution (ARC)	73,764,000	3,586,279
Interest on NPO	25,920,000	2,398,405
Adjustment to ARC	(26,772,368)	(2,477,290)
Annual pension cost	72,911,632	3,507,394
NPO before contributions	360,911,632	30,156,345
Total contributions	(38,335,587)	(3,762,434)
NPO - December 31, 1999	$ 322,576,045	$ 26,393,911

A reconciliation of the balance sheet to amounts presented above:

NPO – December 31, 1999	$ 322,576,045	$ 26,393,911
Additional pension accruals	-	13,461,623
Total	$ 322,576,045	$ 39,855,534

Funding Progress **-** The following summarizes the funding progress for the Plans:

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Employees' Plan	1/l/99	$1,576,924,000	$2,054,953,000	$478,029,000	76.7%	$425,159,210	112.4%
	1/l/98	1,470,510,000	1,994,422,000	523,912,000	73.7%	407,406,425	128.6%
	1/l/97	1,373,715,000	1,748,190,000	374,475,000	78.6%	457,716,790	81.8%
Supplemental Plan	1/l/99	244,342	41,735,184	41,490,842	0.6%	14,639,322	283.4%
	1/l/98	471,839	32,112,921	31,641,082	1.5%	14,048,754	225.2%
	1/l/97	363,023	28,831,519	28,468,496	1.3%	16,357,599	174.0%

10. DEFINED BENEFIT PENSION PLANS (Continued)

Three-Year Trend Information **-** The following summarizes fund information for the Plans:

	Year Ended	Annual Pension Cost (APC)	Actual Contributions	Percentage Net of APC Contributed	Pension Obligation
Employees' Plan	12/31/99	$ 72,911,632	$ 38,335,587	52.6%	$ 322,576,045
	12/31/98	81,325,000	39,143,000	48.1%	288,000,000
	12/31/97	67,945,000	21,017,000	30.9%	245,818,000
Supplemental Plan	12/31/99	$ 3,507,394	$ 3,762,434	107.3%	$ 26,393,911
	12/31/98	3,337,317	3,106,640	93.1%	26,648,951
	12/31/97	3,078,570	2,748,825	89.3%	26,418,951

Early Retirement Program **-** In 1992, the Authority offered an Incentive Retirement Program (the "1992 Program") to all nonunion employees otherwise eligible to retire under existing CTA retirement plan provisions. The 1992 Program was intended to be a voluntary early retirement incentive plan under the meaning of Section 623(f)(2)(B)(ii) of the Age Discrimination in Employment Act of 1967, as amended. The 1992 Program offered increased benefit payouts and elimination of early retirement penalties and is funded, as incentive payments are required. Payments, funded by the Supplemental Plan, of $1.83 and $1.5 million, respectively, were made during 1999 and 1998.

In January 1997, the CTA agreed to a new agreement with certain of its unions. As part of the provisions of the new agreement, the Authority offered a new Incentive Retirement Program (the "1997 Program") to all eligible union employees with 25 years or more of service on or before December 31, 1999. Employees eligible for the 1997 Program had until June 30, 1997 to elect the early retirement option. All costs related to the 1997 Program will be funded by the Employees' Plan.

11. ACCUMULATED DEFICIT

The accumulated deficit primarily represents operating costs not eligible for reimbursement under the RTA agreement. These costs include depreciation expense; injury and damage expense in excess of budgeted provision, and accrued pension costs in excess of pension contributions. The balance also includes interest income, expense, and proceeds from leasing transactions.

In fiscal year 1999 the Authority restated the beginning accumulated deficit balance by $17,453,000 to adjust an amount inappropriately recorded as contributed capital.

12. CONTRIBUTED CAPITAL

Donated assets or grants for the acquisition of capital assets are recorded as contributions of capital. Depreciation recognized on assets donated or acquired through capital grants has been applied to the appropriate contributed capital account.

Changes in contributed capital are as follows:

	Contributed Capital			
	Federal	**State**	**Other**	**Total**
Balance at January 1, 1998	$ 1,897,329,875	$ 274,626,334	$ 697,727,962	$ 2,869,684,171
Transfer of provision for depreciation of property acquired through capital grants	(120,128,064)	(18,466,934)	(79,181,114)	(217,776,112)
Contributions for transportation property and equipment additions	83,042,572	17,810,842	217,002,972	317,856,386
Retirements of transportation property and equipment	(81,916)	(18,014)	(12,816)	(112,746)
Adjustments to transportation property and equipment*	(307,069,988)	(26,934,436)	(191,407,869)	(525,412,293)
Balance at December 31, 1998	1,553,092,479	247,017,792	644,129,135	2,444,239,406
Adjustment to prior period**	-	-	(17,453,000)	(17,453,000)
Adjusted balance at December 31, 1998	1,553,092,479	247,017,792	626,676,135	2,426,786,406
Transfer of provision for depreciation of property acquired through capital grants	(132,598,721)	(19,392,308)	(72,841,348)	(224,832,377)
Contributions for transportation property and equipment additions	133,318,881	20,968,799	43,645,368	197,933,048
Retirements of transportation property and equipment	(998,366)	(320,057)	(638,996)	(1,957,419)
Balance at December 31, 1999	$ 1,552,814,273	$ 248,274,226	$ 596,841,159	$ 2,397,929,658

*In 1998 the CTA implemented a new fixed asset system. The implementation of the system provided a more accurate reflection of contributed capital and accumulated depreciation. As a result of this implementation, contributed capital was reduced and accumulated depreciation was increased by $525,412,293.

**In fiscal year 1999 the Authority restated the beginning accumulated deficit balance by $17,453,000 to adjust an amount inappropriately recorded as contributed capital.

13. COMMITMENTS AND CONTINGENCIES

The CTA has been named as a defendant in various legal proceedings arising in the normal course of operations. Although the ultimate outcome of these matters cannot be presently determined, it is the opinion of management of the CTA that resolution of these matters will not have a material adverse impact on the CTA's financial position.

On May 1, 1998, the CTA defeased the capital lease agreement with the Public Building Commission of Chicago (the "PBC"). The CTA placed approximately $13.1 million into an irrevocable trust with a third party in order to meet all of its payment obligations throughout the term of the lease.

As described in Note 9, the CTA entered into lease financing agreements with a third party in 1996, 1997, and 1998 and sale/leaseback agreements with third parties during 1995. The CTA also leases office facilities under various noncancelable operating lease agreements. As of December 31, 1999, all leases provide for future minimum rental payments, in the aggregate, as follows:

	Operating Leases	Capital Leases
2000	$ 4,476,164	$ 104,892,722
2001	4,476,164	112,184,244
2002	4,518,508	109,748,494
2003	4,788,642	106,240,748
2004	4,788,642	118,816,264
2005 and thereafter	14,365,926	2,591,406,846
Total minimum lease payments	$ 37,414,046	3,143,289,318
Less interest		1,763,867,192
Present value of minimum lease payments		$ 1,379,422,126

A reconciliation of the balance sheet to amount presented above:

Capital lease obligation, less current portion	$ 1,274,529,404
Current portion of capital lease obligation	104,892,722
Total	$ 1,379,422,126

SUPPLEMENTARY SCHEDULE

CHICAGO TRANSIT AUTHORITY
SCHEDULE OF EXPENSES AND REVENUES - BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 1999

	Actual - Budgetary Basis	Original Budget	Variance Favorable (Unfavorable)
OPERATING EXPENSES:			
Labor and fringe benefits	$ 583,051,798	$ 574,630,000	$ (8,421,798)
Materials and supplies	73,423,734	59,778,000	(13,645,734)
Fuel	12,480,466	14,187,000	1,706,534
Electric power	16,569,862	21,695,000	5,125,138
Maintenance and repairs, utilities, rent and other	88,427,433	94,566,000	6,138,567
Provision for injuries and damages	31,000,000	31,000,000	-
Total operating expenses	804,953,293	795,856,000	(9,097,293)
SYSTEM-GENERATED REVENUES:			
Fares and passes	365,952,035	362,106,000	3,846,035
Reduced fare subsidies	16,840,179	17,400,000	(559,821)
Advertising and concessions	16,819,957	14,044,000	2,775,957
Interest income	8,887,348	7,468,000	1,419,348
Contributions from local governmental units	5,000,000	5,000,000	-
Other revenue	7,050,216	5,028,000	2,022,216
Total system-generated revenues (A)	420,549,735	411,046,000	9,503,735
Operating expenses in excess of system-generated revenues	384,403,558	384,810,000	406,442
PUBLIC FUNDING FROM THE RTA:			
Operating assistance	384,403,558	384,810,000	406,442
NET REVENUE - Budgetary basis	$ -	$ -	$ -
RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS:			
Provision for depreciation	$ 231,348,849		
Pension expense in excess of pension contributions	28,754,070		
Provision for injury and damage claims	(35,211,887)		
Revenue from leasing transactions (B)	(4,262,208)		
Interest income from sale/leaseback	(104,820,256)		
Interest expense from sale/leaseback	101,646,031		
NET LOSS - GAAP basis	$ 217,454,599		
CTA RECOVERY RATIO:			
Total operating expenses	$ 804,953,293		
Less mandated security costs	2,610,000		
Subtotal (C)	$ 802,343,293		
Recovery Ratio (A)+(B)/(C)	51.9%		