CHICAGO TRANSIT AUTHORITY

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2007 and 2006

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Crowe Chizek and Company LLC
Member Horwath International

Independent Auditors' Report

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

We have audited the accompanying financial statements of the business-type and fiduciary activities of the Chicago Transit Authority (CTA) as of and for the year ended December 31, 2007, which collectively comprise the CTA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the CTA's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the CTA as of December 31, 2006, were audited by other auditors whose report dated April 30, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type and fiduciary activities of the CTA as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 28, 2008 on our consideration of the CTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 14 and the schedules of funding progress and employer contributions on pages 61 through 65 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit for the year ended December 31, 2007 was made for the purpose of forming opinions on the basic financial statements taken as a whole. The supplementary information included in the schedule of expenses and revenues - budget and actual for the year ended December 31, 2007 on page 66 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole for the year ended December 31, 2007. The supplementary information included in the schedule of expenses and revenues - budget and actual for the year ended December 31, 2006 on page 67 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information was subjected to the auditing procedures applied by other auditors whose report dated April 30, 2007 expressed an opinion that such information was fairly stated in all material respects in relation to the basic financial statements taken as a whole for the year ended December 31, 2006.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Chicago, Illinois
April 28, 2008

Introduction

The following discussion and analysis of the financial performance and activity of the Chicago Transit Authority (CTA) provide an introduction and understanding of the basic financial statements of the CTA for the fiscal years ended December 31, 2007 and 2006. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights for 2007

- *Net assets totaled $1,412,258,000 at December 31, 2007.*
- *Net assets decreased $331,265,000 in 2007, which compares to a decrease of $103,559,000 in 2006.*
- *Total net capital assets were $3,445,706,000 at December 31, 2007, an increase of 7.61% over the balance at December 31, 2006 of $3,202,171,000.*

Financial Highlights for 2006

- *Net assets totaled $1,743,523,000 at December 31, 2006.*
- *Net assets decreased $103,559,000 in 2006, which compares to a decrease of $153,572,000 in 2005.*
- *Total net capital assets were $3,202,171,000 at December 31, 2006, an increase of 7.54% over the balance at December 31, 2005 of $2,977,603,000.*

The Financial Statements

The basic financial statements provide information about the CTA's business-type activities and the Open Supplemental Retirement Fund (fiduciary activities). The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements for Business-Type Activities

The financial statements consist of the (1) balance sheet, (2) statement of revenues, expenses, and changes in net assets, (3) statement of cash flows, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

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Balance Sheet

The balance sheet reports all financial and capital resources for the CTA (excluding fiduciary activities). The statement is presented in the format where assets equal liabilities plus net assets, formerly known as equity. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the balance sheet is to show a picture of the liquidity and health of the organization as of the end of the year.

The balance sheet (the unrestricted net assets) is designed to present the net available liquid (noncapital) assets, net of liabilities, for the entire CTA. Net assets are reported in three categories:

- *Net Assets Invested in Capital Assets, Net of Related Debt—This component of net assets consists of all capital assets, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.*
- *Restricted Net Assets—This component of net assets consists of restricted assets where constraints are placed upon the assets by creditors (such as debt covenants), grantors, contributors, laws, and regulations, etc.*
- *Unrestricted Net Assets—This component consists of net assets that do not meet the definition of net assets invested in capital assets, net of related debt, or restricted net assets.*

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets includes operating revenues, such as bus and rail passenger fares, rental fees received from concessionaires, and the fees collected from advertisements on CTA property; operating expenses, such as costs of operating the mass transit system, administrative expenses, and depreciation on capital assets; and nonoperating revenue and expenses, such as grant revenue, investment income, and interest expense. The focus of the statement of revenues, expenses, and changes in net assets is the change in net assets. This is similar to net income or loss and portrays the results of operations of the organization for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used for operating activities, investing activities, noncapital financing activities, and from capital and related financing activities. This statement also portrays the health of the CTA in that current cash flows are sufficient to pay current liabilities.

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Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, capital lease obligations, bonds payable, long-term liabilities, defined-benefit pension plans, derivative financial instruments, and the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

Financial Analysis of the CTA's Business-Type Activities

Balance Sheet

The following table reflects a condensed summary of assets, liabilities, and net assets of the CTA as of December 31, 2007, 2006, and 2005:

Table 1

Summary of Assets, Liabilities, and Net Assets

December 31, 2007, 2006, and 2005

(In thousands of dollars)

	2007	2006	2005
Assets:			
Current assets	$ 496,326	$ 418,591	$ 407,698
Restricted assets	1,941,364	2,190,409	2,052,990
Other assets	15,177	16,101	16,390
Capital assets, net	3,445,706	3,202,171	2,977,603
Total assets	$ 5,898,573	$ 5,827,272	$ 5,454,681
Liabilities:			
Current liabilities	$ 710,765	$ 501,238	$ 429,054
Long-term liabilities	3,775,550	3,582,511	3,178,545
Total liabilities	4,486,315	4,083,749	3,607,599
Net assets:			
Invested in capital assets, net of related debt	$ 2,912,748	$ 2,933,473	$ 2,767,809
Restricted for payment of leasehold obligations	37,992	33,017	24,211
Restricted for debt service	32,233	31,379	32,840
Restricted by RTA for operations and capital improvements	5,430	5,818	7,460
Unrestricted (unrestricted)	(1,576,145)	(1,260,164)	(985,238)
Total net assets	1,412,258	1,743,523	1,847,082
Total liabilities and net assets	$ 5,898,573	$ 5,827,272	$ 5,454,681

(Continued)

Year Ended December 31, 2007

Current assets increased by 18.57% to $496,326,000. The change in current assets is primarily due to the increase in cash and investments.

Restricted assets decreased by 11.37% to $1,941,364,000 due to the utilization of bond proceeds during 2007.

Other assets decreased by 5.74% to $15,177,000 primarily due to the amortization of bond issue costs and decrease in net pension asset.

Capital assets (net) increased by 7.61% to $3,445,706,000 due to the CTA's capital improvement projects. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Current liabilities increased 41.8% to $710,765,000 primarily due to an increase in accounts payable, advances, and the current portion of capital lease obligations.

Long-term liabilities increased 5.39% to $3,775,550,000 due primarily to an increase in net pension obligation.

Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets.

The net asset balances restricted for other purposes include amounts restricted for three distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments. The third restriction is for operating grants received from the RTA that are restricted for future operations and capital improvements.

Unrestricted net assets (deficit), which represent assets available for operations, increased 25.07% over the prior year, primarily due to unfunded pension and postemployment healthcare expense (i.e. increase in the net pension obligation) of $305,126,000.

(Continued)

Year Ended December 31, 2006

Current assets increased by 2.67% to $418,591,000. The change in current assets is primarily due to the increase in grants receivable which is offset by a decrease in cash, investments, and inventory.

Restricted assets increased by 6.69% to $2,190,409,000 due to the receipt of bond proceeds that were not yet expended at year-end. During 2006, CTA issued Capital Grant Receipts Revenue Bonds, "2006 Project," in the amount of $275,000,000, along with a premium of $19,652,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance the costs of capital improvements to the transportation system referred to as the "2006 Project." At December 31, 2006, approximately $291,000,000 of the proceeds from this bond were unspent.

Other assets decreased by 1.76% to $16,101,000 primarily due to the amortization of bond issue costs and decrease in net pension asset.

Capital assets (net) increased by 7.54% to $3,202,171,000 due to the CTA's capital improvement projects. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Current liabilities increased 16.82% to $501,238,000 primarily due to an increase in accounts payable and accrued expenses.

Long-term liabilities increased 12.71% to $3,582,511,000 due primarily to an increase in net pension obligation and the issuance of Capital Grant Receipts Revenue Bonds in 2006.

Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. This category increased 5.99% from the prior year primarily due to capital assets, acquisitions during the year that were funded by capital grants of $522,040,000, offset by depreciation expense of $376,910,000.

The net asset balances restricted for other purposes include amounts restricted for three distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments. The third restriction is for operating grants received from the RTA that are restricted for future operations and capital improvements.

Unrestricted net assets (deficit), which represent assets available for operations, increased 27.90% over the prior year, primarily due to unfunded pension expense (i.e. increase in the net pension obligation) of $241,202,000.

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Statement of Revenues, Expenses, and Changes in Net Assets

The following table reflects a condensed summary of the revenues, expenses, and changes in net assets (in thousands) for the years ended December 31, 2007, 2006, and 2005:

Table 2

Condensed Summary of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2007, 2006, and 2005

(In thousands of dollars)

	2007	2006	2005
Operating revenues	$ 493,350	$ 493,023	$ 448,411
Operating expenses:			
Operating expenses	1,412,842	1,344,133	1,216,217
Depreciation	387,738	376,910	360,559
Total operating expenses	1,800,580	1,721,043	1,576,776
Operating loss	(1,307,230)	(1,228,020)	(1,128,365)
Nonoperating revenues/expenses, net	600,051	602,421	576,139
Capital contributions	375,914	522,040	398,654
Change in net assets	(331,265)	(103,559)	(153,572)
Total net assets, beginning of year	1,743,523	1,847,082	2,000,654
Total net assets, end of year	$ 1,412,258	$ 1,743,523	$ 1,847,082

Year Ended December 31, 2007

Total operating revenues increased by $327,000, or 0.07% due to a one-time utility settlement received in 2007. Farebox revenue decreased over the prior year by approximately $5,000,000 or 1.1% despite an increase in ridership of approximately 4.7 million rides or 1.0%. The fare structure implemented on January 1, 2006 resulted in many riders transitioning from a per ride fare to an unlimited pass thereby driving the average fare down from $0.934 in 2006 to $0.915 in 2007.

Total operating expenses increased $79,537,000, or 4.62%. The increase is primarily driven by higher labor, materials, electric power, and fuel expense.

Labor expense increased due to higher healthcare, pension, and workers' compensation expenses. Materials expense increased $1,028,000 due to increasing commodity prices, higher mileage and the aging life of the fleet. Electric power increased $5,873,000 due to the end of the decade long rate freeze in Illinois. Fuel expense increased $13,711,000 due to a higher average cost per gallon due to market driven forces. In 2007, the average fuel price increased $0.50 to

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$2.82 per gallon. Other expense increased due to higher utilities, rent and facilities maintenances costs. The provision for injuries and damages decreased by $10,000,000 due to cost containment initiatives implemented by the CTA such as surveillance cameras and aggressive case management practices.
At the direction of the Illinois General Assembly, on July 1, 2006, the responsibility for providing paratransit service in the region was transitioned to Pace Suburban Bus. As a result, there is no paratransit expense for 2007.

Year Ended December 31, 2006

Operating revenues increased by $44,612,000, or 9.95%. The revenue increase is primarily due to higher ridership and a higher average fare. The higher average fare is due to the new fare structure which eliminated cash transfers and increased cash and rail transit card fares. Additionally, systemwide ridership increased by 0.5% in 2006.

Total operating expenses increased $144,267,000, or 9.15%. The increase is primarily driven by higher labor, materials, and fuel expense.

Labor expense increased due to higher wages, pension, and workers' compensation expenses. Materials expense increased $11,784,000 due to increasing commodity prices, higher mileage and the aging life of the fleet. Fuel expense increased $11,682,000 due to a higher average cost per gallon due to market driven forces. In 2006, the average fuel price increased $0.45 to $2.32 per gallon.

At the direction of the Illinois General Assembly, on July 1, 2006, the responsibility for providing paratransit service in the region was transitioned to Pace Suburban Bus. As a result, paratransit expense declined by $24,800,000 or 46% over the prior year.

Table 3, which follows, provides a comparison of amounts for these items:

(Continued)

Table 3

Operating Expenses

Years ended December 31, 2007, 2006, and 2005

(In thousands of dollars)

	2007	2006	2005
Labor and fringe benefits	$ 1,112,290	$ 1,047,445	$ 914,034
Materials and supplies	84,178	83,150	71,366
Fuel	71,181	57,470	45,788
Electric power	28,141	22,268	22,909
Purchase of security services	31,363	30,831	31,221
Purchase of paratransit	-	28,415	53,257
Maintenance and repairs, utilities, rent, and other	69,465	48,288	51,069
Operating expense before provisions	1,396,618	1,317,867	1,189,644
Provision for injuries and damages	16,224	26,266	26,573
Provision for depreciation	387,738	376,910	360,559
Total operating expenses	$ 1,800,580	$ 1,721,043	$ 1,576,776

Capital Asset and Debt Administration

Capital Assets

The CTA invested $6,908,803,000 (not adjusted for inflation) in capital assets, including buildings, vehicles, elevated railways, signal and communication equipment, as well as other equipment as of December 31, 2006. Net of accumulated depreciation, the CTA's capital assets at December 31, 2006 totaled $3,202,171,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of $224,568,000, or 7.54%, over the December 31, 2005 balance of $2,977,603,000.

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Table 4
Capital Assets by Funding Source
December 31, 2007, 2006, and 2005
(In thousands of dollars)

	2007	2006	2005
Funding source:			
Federal (FTA)	$4,766,864	$ 4,296,228	$ 3,912,142
State (principally IDOT)	570,408	557,261	527,502
RTA	1,736,990	1,670,859	1,556,002
CTA (generally prior to 1973)	124,854	126,573	126,573
Other	264,248	257,882	243,921
Total capital assets	7,463,364	6,908,803	6,366,140
Accumulated depreciation	4,017,658	3,706,632	3,388,537
Total capital assets, net	$ 3,445,706	$ 3,202,171	$ 2,977,603

The year-over-year increase in capital assets resulted primarily from rolling stock purchases, overhauls of railcars and buses, and the infrastructure improvement projects identified in the 2007 portion of the Five-Year Capital Plan.

Debt Administration

Long-term debt includes capital lease obligations payable, accrued pension costs, and bonds payable.

At December 31, 2007, the CTA had $1,750,421,000 in capital lease obligations outstanding, a 0.5% increase from December 31, 2006. The net pension obligation at December 31, 2007 was $908,609,000, a 21.5% increase from December 31, 2006. The increase in net pension obligation is primarily due to contributions that are less than the actuarially determined amount. The other postemployment healthcare benefit liability (OPEB) at December 31, 2007 was $659,729,000 a 28.0% increase from December 31, 2006. The increase in OPEB at December 31, 2007 is due to the rising cost of healthcare.

At December 31, 2006, the CTA had $1,741,828,000 in capital lease obligations outstanding, a 0.3% increase from December 31, 2005. The net pension obligation at December 31, 2006 was $748,020,000, and the other postemployment healthcare benefit liability (OPEB) was $515,374,000, a combined increase of 23.6% from December 31, 2005. The increase in net pension obligation and postemployment healthcare liability is primarily because the CTA contributes to the employee pension plans based on the requirements of union contracts rather than an actuarial determined amount.

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More detailed information about the CTA's long-term debt and pension obligation is presented in the notes to the financial statements.

Economic Factors and Next Year's Budget

The CTA adopted a proposed 2008 Annual Budget on November 7, 2007 that includes significant service reductions, fare increases, and layoffs in order to bridge a projected $158.0 million shortfall. This budget was then submitted to the RTA and approved by the RTA on December 14, 2007. Subsequent to the approval of the "doomsday budget" the Illinois state legislature passed legislation increasing funding to transit. As such, RTA has issued new funding marks to CTA and CTA is in process of amending its budget to cancel the service cuts, fare increase and reflect the new funding. The proposed budget amendment provides for operating expenses of $1,162,666,234. The proposed operating budget amendment increase of 6.3% over the 2007 actual results is primarily due to higher healthcare, pension, fuel, and power costs. Comparatively, the U.S. City Average Annual Consumer Price Index (CPI) grew by 2.8% for 2007. The primary economic indicators impacting ridership and operating funds is area employment and retail sales. CTA's public funding is primarily based on sales tax. The 2007 annual unemployment rate for the City of Chicago ended the year at 4.9%, compared to 4.5% at the end of 2006. National unemployment also ended the year at 4.8% in December 2007 and 4.6% annual. Employment in the Chicago metropolitan division was 3,934,596 at the end of 2007. This represents an increase of 30,362 jobs since the end of 2006.

CTA renegotiated a five year labor contract for 2007 – 2011 that provides for wage increases of 3.0% in 2007, 2008 and 2009 and 3.5% in 2010 and 2011. The new contract also provides for increased contributions to the pension fund and implements an employee contribution for retiree healthcare.

Budgeted system-generated revenues for 2008 are $540,835,000 and are lower than the 2007 actual results by $4,800,000. This projected decrease over 2007 actual revenues is due to implementation of the senior free ride program required by legislation passed in January 2008. CTA will begin offering free rides to senior citizens on March 17, 2008. This program is projected to reduce CTA's revenue in 2008 by $17,500,000.

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New Legislation

On January 18, 2008, Public Act 95-708 became law. This legislation provides funding for CTA operations, pension and retiree healthcare from four sources: 1) a 0.25 percent increase in the RTA sales tax in each of the six counties, 2) a $1.50 per $500 of transfer price increase in the City of Chicago's Real Property Transfer Tax, 3) an additional 5% state match on the real estate transfer tax and all sales tax receipts except for the replacement and use tax, and 4) a 25% state match on the new sales tax and real estate transfer tax. The proceeds from the increase in the RTA sales tax will be used to fund some existing programs such as ADA paratransit services, as well as some new initiatives such as the Suburban Community Mobility Fund and the Innovation, Coordination and Enhancement Fund. The balance of these additional proceeds along with the 5% state match on: existing, additional sales tax and real estate transfer tax; and the state 25% match on the new sales tax will be divided among the CTA (48%), Metra (39%) and Pace (13%) according to the statutory formula. On February 6, 2008, the Chicago City Council authorized an increase in the Real Property Transfer Tax in the amount of $1.50 per $500 of transfer price, the proceeds of which (after deducting costs associated with collection) will be entirely directed to the CTA. Additionally the state 25% match on the real estate transfer tax will be entirely directed to CTA as well. After financing debt service for pension and retiree healthcare in the amount of approximately $124 million annually, and taking into consideration the potential fluctuations in the Real Property Transfer Tax, the combination of these two revenue sources are expected to yield approximately $104 million annually for CTA operations in the short-term, with a potential for growth as the economy rebounds.

Pursuant to Public Act 94-839, the CTA was required to make contributions to its retirement system in an amount which, together with the contributions of its participants, interest earned on investments and other income, were sufficient to bring the total assets of the retirement system up to 90% of its total actuarial liabilities by the end of fiscal year 2058. This legislation also required the RTA to monitor the payment by the CTA of its required retirement system contributions. If the CTA's contributions were more than one month overdue, the RTA would pay the amount of the overdue contributions directly to the trustee of the CTA's retirement system out of moneys otherwise payable by the RTA to the CTA.

Public Act 95-708 modified this directive slightly and added a number of other requirements. First, a new Retirement Plan Trust will be created to manage the Retirement Plan assets. Second, CTA contributions have been increased from 6% to 12%, and employee contributions have been increased from 3% to 6%. Third, in addition to the requirement that the Retirement Plan be 90% funded by 2059, there is a new requirement that the Retirement Plan be funded at a minimum of 60% by September 15, 2009. Any deviation from the stated projections could result in a directive from the State of Illinois Auditor General to increase the CTA and employee contributions. Fourth, Public Act 95-708 authorized the CTA to issue $1.349 billion in pension obligation bonds to fund the Retirement Plan. Finally, the legislation provides that CTA will have no future responsibility for retiree healthcare costs after the bond funding.

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Public Act 95-708 also addressed retiree healthcare. In addition to the separation between pension and healthcare that was mandated by Public Act 94-839, Public Act 95-708 provides funding and benefit changes to the retiree healthcare benefits. First, all CTA employees will be required to contribute 3% of their compensation into the new retiree healthcare trust. Second, all employees will be eligible for retiree healthcare, but after January 18, 2008, only those employees who retire at or after the age of 55 with 10 years of continuous service will actually receive the benefit. Third, retiree, dependent and survivor premiums can be raised up to 45% of the premium cost. Finally, the CTA has been given the authorization to issue $640 million in pension obligation bonds to fund the healthcare trust.

The Chicago Transit Board has not yet approved the issuance of these bonds, however the CTA is preparing for this issuance predicated on the assumption that the bonds will be repaid with the proceeds of the additional funds provided to the CTA from the legislation.

Contacting the CTA's Financial Management

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the CTA's finances and to demonstrate the CTA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chicago Transit Authority's Finance Division, P.O. Box 7565, Chicago, IL 60680-7565.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2007 and 2006
(In thousands of dollars)

Assets	2007	2006
Current assets:		
Cash and cash equivalents	$ 130,802	$ 27,736
Investments	900	10,914
Total cash, cash equivalents, and investments	131,702	38,650
Grants receivable:		
Due from the RTA	87,809	144,507
Capital improvement projects from federal and state sources	4,974	8,912
Unbilled work in progress	158,725	106,686
Other	1,485	1
Total grants receivable	252,993	260,106
Accounts receivable, net	28,080	37,193
Materials and supplies, net	78,412	77,516
Prepaid expenses and other assets	5,139	5,126
Total current assets	496,326	418,591
Restricted cash and investments:		
Bond proceeds held by trustee	112,557	400,523
Restricted by RTA	20,302	23,201
Restricted for injury and damage reserve	109,057	83,180
Restricted assets for repayment of leasing commitments	1,699,448	1,683,505
Total restricted assets	1,941,364	2,190,409
Other assets:		
Cash and investments held by trustee for supplemental retirement plan	138	96
Bond issue costs	7,192	7,916
Net pension asset	7,847	8,089
Total other assets	15,177	16,101
Capital assets:		
Capital assets not being depreciated:		
Land	119,257	119,419
Construction in process	666,046	694,234
Total capital assets not being depreciated	785,303	813,653
Capital assets being depreciated:		
Land improvements	20,954	19,141
Buildings	1,734,898	1,549,652
Transportation vehicles	2,068,102	1,971,486
Elevated structures, tracks, tunnels, and power system	1,462,301	1,349,446
Signals	864,781	724,628
Other equipment	527,025	480,797
Less accumulated depreciation	(4,017,658)	(3,706,632)
Total capital assets being depreciated, net	2,660,403	2,388,518
Total capital assets, net	3,445,706	3,202,171
Total assets	$ 5,898,573	$ 5,827,272

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CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2007 and 2006
(In thousands of dollars)

	2007	2006
Liabilities and Net Assets		
Current liabilities:		
Account payable and accrued expenses	$ 172,190	$ 123,719
Accrued payroll, vacation pay, and related liabilities	99,626	98,925
Accrued interest payable	3,480	3,458
Advances, deposits, and other	49,552	9,333
Advances from RTA	20,302	23,201
Deferred passenger revenue	29,273	29,290
Other deferred revenue	2,705	992
Deferred operating assistance	24,602	23,273
Current portion of self-insurance claims	74,795	63,411
Current portion of capital lease obligations	206,765	107,226
Current portion of bonds payable	27,475	18,410
Total current liabilities	710,765	501,238
Long-term liabilities:		
Self-insurance claims, less current portion	117,955	102,432
Capital lease obligations, less current portion	1,543,656	1,634,602
Premium on capital lease obligation	5,721	6,062
Deferred revenue – leasing transactions	37,235	41,497
Bonds payable	461,410	488,885
Premium on bonds payable	36,902	41,060
Accrued pension costs (net pension obligation)	908,609	748,020
Other Post-Employment Healthcare Liability	659,729	515,374
Other long-term liabilities	4,333	4,579
Total long-term liabilities	3,775,550	3,582,511
Total liabilities	4,486,315	4,083,749
Net assets:		
Invested in capital assets, net of related debt	2,912,748	2,933,473
Restricted for payment of leasehold obligations	37,992	33,017
Restricted for debt service	32,233	31,379
Restricted by RTA for future operations and capital improvements	5,430	5,818
Unrestricted (deficit)	(1,576,145)	(1,260,164)
Total net assets	1,412,258	1,743,523
Total liabilities and net assets	$ 5,898,573	$ 5,827,272

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended December 31, 2007 and 2006
(In thousands of dollars)

	2007	2006
Operating revenues:		
Fare box revenue	$ 253,987	$ 276,408
Pass revenue	203,313	185,809
Total fare box and pass revenue	457,300	462,217
Advertising and concessions	23,164	24,402
Other revenue	12,886	6,404
Total operating revenues	493,350	493,023
Operating expenses:		
Labor and fringe benefits	1,112,290	1,047,445
Materials and supplies	84,178	83,150
Fuel	71,181	57,470
Electric power	28,141	22,268
Purchase of security services	31,363	30,831
Purchase of paratransit	-	28,415
Maintenance and repairs, utilities, rent, and other	69,465	48,288
	1,396,618	1,317,867
Provisions for injuries and damages	16,224	26,266
Provision for depreciation	387,738	376,910
Total operating expenses	1,800,580	1,721,043
Operating expenses in excess of operating revenues	(1,307,230)	(1,228,020)
Nonoperating revenues (expenses):		
Public funding from the RTA	548,249	524,056
Reduced-fare subsidies	33,308	29,604
Operating grant revenue	3,740	13,143
Contributions from local government agencies	5,000	5,000
Investment income	16,207	36,079
Gain on sale of assets	27	28
Recognition of leasing transaction proceeds	4,262	4,262
Interest expense on bonds	(15,718)	(14,557)
Interest revenue from leasing transactions	120,795	118,559
Interest expense on leasing transactions	(115,819)	(113,753)
Total nonoperating revenues, net	600,051	602,421
Change in net assets before capital contributions	(707,179)	(625,599)
Capital contributions	375,914	522,040
Change in net assets	(331,265)	(103,559)
Total net assets – beginning of year	1,743,523	1,847,082
Total net assets – end of year	$ 1,412,258	$ 1,743,523

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2007 and 2006
(In thousands of dollars)

	2007	2006
Cash flows from operating activities:		
Cash received from fares	$ 457,283	$ 468,319
Payments to employees	(786,524)	(798,078)
Payments to suppliers	(264,857)	(293,570)
Other receipts	87,095	19,616
Net cash flows provided by (used in) operating activities	(507,003)	(603,713)
Cash flows from noncapital financing activities:		
Public funding from the RTA	591,161	500,776
Reduced-fare subsidies	48,423	29,745
Operating grant revenue	3,740	13,143
Contributions from local governmental agencies	5,000	5,000
Net cash flows provided by (used in) noncapital financing activities	648,324	548,664
Cash flows from capital and related financing activities:		
Interest income from assets restricted for payment of leasehold obligations	120,795	118,559
Interest expense on bonds	(19,130)	(19,220)
Decrease in restricted assets for repayment of leasing commitments	(15,943)	(33,737)
Repayment of lease/leaseback obligations	(107,226)	(84,822)
Proceeds from capital leases	-	98,016
Payment of capital lease obligations	-	(4,000)
Payment to escrow agent for refunded capital lease obligations	-	(116,599)
Proceeds from issuance of bonds	-	291,377
Proceeds from other long-term liabilities	(246)	(611)
Repayment of bonds payable	(18,410)	(103,740)
Payments for acquisition and construction of capital assets	(613,772)	(553,908)
Proceeds from the sale of property and equipment	1,075	1,537
Capital grants	326,329	503,832
Net cash flows provided by (used in) capital and related financing activities	(326,528)	96,684
Cash flows from investing activities:		
Purchases of unrestricted investments	(900)	(10,914)
Proceeds from maturity of unrestricted investments	10,914	28,211
Restricted cash and investment accounts:		
Purchases and withdrawals	(11,077,990)	(5,854,660)
Proceeds from maturities and deposits	11,340,042	5,741,689
Investment revenue	16,207	36,079
Net cash flows provided by (used in) investing activities	288,273	(59,595)
Net increase (decrease) in cash and cash equivalents	103,066	(17,960)
Cash and cash equivalents – beginning of year	27,736	45,696
Cash and cash equivalents – end of year	$ 130,802	$ 27,736

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2007 and 2006
(In thousands of dollars)

	2007	2006
Reconciliation of expenses in excess of operating revenue to net cash used in operating activities:		
Operating expenses in excess of operating revenue	$ (1,307,230)	$ (1,228,020)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash used in operating activities:		
Depreciation	387,738	376,910
(Increase) decrease in assets:		
Accounts receivable	9,113	(10,005)
Materials and supplies	(896)	6,092
Prepaid expenses and other assets	(13)	(262)
Net pension asset	242	42
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	29,581	(2,524)
Accrued payroll, vacation pay, and related liabilities	701	11,050
Self-insurance reserves	26,907	(3,115)
Deferred passenger revenue	(17)	6,102
Other deferred revenue	1,713	207
Advances, deposits, and other	40,219	(1,392)
Accrued pension costs and OPEB	304,939	241,202
Net cash flows used in operating activities	$ (507,003)	$ (603,713)
Noncash investing and financing activities:		
Recognition of leasing proceeds	$ 4,262	$ 4,262
Decrease in deferred revenue – leasing transactions	(4,262)	(4,262)
Accretion of interest on lease/leaseback obligations	115,819	113,753
Retirement of fully depreciated capital assets	76,962	59,066

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Fiduciary Net Assets
Open Supplemental Retirement Plan
December 31, 2007 and 2006
(In thousands of dollars)

	2007	2006
Assets:		
Contributions from employees	$ 23	$ 3
Investments at fair value:		
Short-term investments	808	813
Government agencies	5,653	5,571
Common stock	13,024	12,620
Total investments at fair value	19,485	19,004
Receivables	3	-
Securities lending collateral	11,679	2,127
Total assets	31,190	21,134
Liabilities:		
Accounts payable and other liabilities	55	70
Securities lending collateral obligation	11,679	2,127
Total liabilities	11,734	2,197
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is included on page 50)	$ 19,456	$ 18,937

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Changes in Fiduciary Net Assets
Open Supplemental Retirement Plan
Years ended December 31, 2007 and 2006
(In thousands of dollars)

	2007	2006
Additions:		
Contributions:		
Employee	$ 141	$ 269
Total contributions	141	269
Investment income:		
Net increase in fair value of investments	369	1,460
Investment income	563	534
Total investment income	932	1,994
Total additions	1,073	2,263
Deductions:		
Benefits paid to participants or beneficiaries	386	250
Trust fees	168	121
Total deductions	554	371
Net increase	519	1,892
Net assets held in trust for pension benefits:		
Beginning of year	18,937	17,045
End of year	$ 19,456	$ 18,937

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION

The Chicago Transit Authority (CTA) 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, the 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: As defined by U.S. generally accepted accounting principles (GAAP), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependency on the primary government.

Based upon the application of these criteria, the CTA has no component units and is not a component unit of any other entity.

The CTA participates in the Employees' Retirement Plan, which is a single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Plan is governed by the terms of the employees' collective bargaining agreement. The fund established to administer the Employees' Retirement Plan is not a fiduciary fund or a component unit of the CTA. 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, over which the CTA has no direct authority and assumes no fiduciary responsibility. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

(Continued)

NOTE 1 - ORGANIZATION (Continued)

The CTA administers supplemental retirement plans that are separate, defined benefit pension plans for selected individuals. The supplemental retirement plans provide benefits to employees of the CTA in certain employment classifications. The supplemental retirement plans consist of the: (1) board member plan, (2) closed supplemental plan for members retired or terminated from employment before March 2005, including early retirement incentive, and (3) open supplemental plan for members retiring or terminating after March 2005. The CTA received qualification under Section 401(a) of the Internal Revenue Code for the supplemental plan and established a qualified trust during 2005 for members retiring after March 2005 (Open Supplemental Retirement Plan). The Open Supplemental Retirement Plan is reported in a fiduciary fund, whereas the activities for the closed and board plans are included in the financial statements of the CTA's business-type activities.

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, comprising 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 pro forma statements with the RTA, as statutorily required.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The basic financial statements provide information about the CTA's business-type and fiduciary (Open Supplemental Retirement Plan) activities. Separate statements for each category—business-type and fiduciary—are presented. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. On an accrual basis, revenues from operating activities are recognized in the fiscal year that the operations are provided; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

The financial statements for the CTA's business-type activities are used to account for the CTA's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the CTA maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the CTA are included in the balance sheet.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal operating revenues of the CTA are bus and rail passenger fares. The CTA also recognizes as operating revenue the rental fees received from concessionaires, the fees collected from advertisements on CTA property, and miscellaneous operating revenues. Operating expenses for the CTA include the costs of operating the mass transit system, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Nonexchange transactions, in which the CTA receives value without directly giving equal value in return, include grants from federal, state, and local governments. On an accrual basis, revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the CTA on a reimbursement basis.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the CTA applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently.

The financial statements for the fiduciary activities are used to account for the assets held by the CTA in trust for the payment of future retirement benefits under the Open Supplemental Retirement Plan. The assets of the Open Supplemental Retirement Plan cannot be used to support CTA operations.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with maturities when purchased of three months or less.

Investments: Investments, including the supplemental retirement plan assets, are reported at fair value based on quoted market prices and valuations provided by external investment managers.

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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets: The CTA entered into various lease/leaseback agreements in fiscal years 1995 through 2003. These agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the related capital assets to an equity investor trust, which would then lease the capital assets back to another trust established by the CTA under a separate lease. The CTA received certain funds as prepayment by the equity investor trust. These 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.

In 2004 and 2006, the CTA issued Capital Grant Receipt Revenue Bonds. The proceeds from each sale were placed in trust accounts restricted for financing the costs of capital improvement projects associated with each issuance.

In 2003, the Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA. The proceeds from the sale were placed in trust accounts restricted for financing the costs of acquisition of real property and construction of a building, and facilities, including certain furniture, fixtures, and equipment. The real property, building and facilities, and all furniture, fixtures, and equipment are owned by the PBC and leased to the CTA for use as its headquarters. In 2006, the PBC issued refunding revenue bonds to refund all outstanding Series 2003 bonds.

In 2003, the CTA reached an agreement with the RTA to provide advance funding of capital projects. Funds received as an advance are restricted for future capital projects, subject to RTA approval.

The CTA maintained cash and investment balances to fund the annual injury and damage obligations that are required to be designated under provisions of Section 39 of the Metropolitan Transportation Authority Act.

Materials and Supplies: Materials and supplies are stated at the lower of average cost or market value and consist principally of maintenance, supplies, and repair parts.

Capital Assets: All capital assets are stated at cost. Capital assets are defined as assets which (1) have a useful life of more than one year and a unit cost of more than $5,000, (2) have a unit cost of $5,000 or less, but which are part of a network or system conversion, or (3) were purchased with grant money. The cost of maintenance and repairs is charged to operations as incurred. Interest is capitalized on constructed capital assets. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Capitalized interest expense was $9,565,000 and $2,510,000 during the years ended December 31, 2007 and 2006, respectively.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The provision for depreciation of transportation property and equipment is calculated under the straight-line method using 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
Signals	10-20
Other equipment	3-10

A full month's depreciation is taken in the month after an asset is placed in service. When property and equipment are disposed, depreciation is removed from the respective accounts and the resulting gain or loss, if any, is recorded.

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.

Self-insurance: The CTA is self-insured for various risks of loss, including public liability and property damage, workers' compensation, and health benefit claims, as more fully described in note 11. 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.

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 that 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 do not accumulate or vest.

Under GASB Statement No. 16, 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 sheets.

Bond Premiums and Issuance Cost: Bond premiums and issuance costs are deferred and amortized over the life of the bonds using an effective interest method.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets: Equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the CTA's policy to use restricted resources first, and then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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 30 years.

Fare Box and Pass Revenues: Fare box and pass revenues are recorded as revenue at the time services are performed.

Classification of Revenues: The CTA has classified its revenues as either operating or nonoperating. Operating revenues include activities that have the characteristics of exchange transactions, including bus and rail passenger fares, rental fees received from concessionaires, the fees collected from advertisements on CTA property, and miscellaneous operating revenues. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as federal, state, and local grants and contracts.

Unbilled Work In Progress: Unbilled Work in Progress represents grant expense that has not been billed to the funding agencies as of yearend. This would include contract retentions, accruals and expenditures for which, due to requisitioning restrictions of the agencies or the timing of the expenditures, reimbursement is requested in a subsequent period.

Estimates: The preparation of financial statements in conformity with U.S. 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications: Certain amounts from the prior year have been reclassified to conform to the current year presentation.

Recent Pronouncements: In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. Specifically, the CTA is required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired CTA employees in future years. The CTA is also required to record a net OPEB obligation, which is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. The CTA implemented Statement No. 45 beginning with the year ended December 31, 2007.

NOTE 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 2007 and 2006, these amounts include provision for injuries and damage in excess of (or under) budget, depreciation expense, pension expense in excess of pension contributions, revenue from leasing transactions, interest income and expense from sale/leaseback transactions, and capital contributions.

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 that are unfunded 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;

(Continued)

NOTE 3 - BUDGET AND BUDGETARY BASIS OF ACCOUNTING (Continued)

- 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.

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.

NOTE 4 - 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. Sales tax is allocated based upon a statutory formula, while discretionary funds are allocated based on the RTA's discretion.

The funding "marks" represent the amount of funds that each Service Board can expect to receive from the RTA and other sources. During 2007, the RTA amended the funding marks and directed the CTA to amend the budget. The amended 2007 funding "marks" include $83.9 million of capital funding for operations.

The components of the budgeted operating funding from the RTA were as follows (in thousands of dollars):

	2007	2006
Illinois state sales tax allocation	$ 295,098	$ 284,636
Public Transportation Fund/RTA discretionary funding/other	253,151	239,420
Total	$ 548,249	$ 524,056

Reduced-fare subsidies received from the State of Illinois were $33,308,000 and $29,604,000 during the years ended December 31, 2007 and 2006, respectively, for discounted services provided to the elderly, disabled, or student riders.

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, Cash Equivalents, and Investments of the Business-type Activities: Cash, cash equivalents, and investments are reported in the balance sheets of the business-type activities as follows as of December 31, 2007 and 2006 (in thousands):

	2007	2006
Current assets:		
Cash and cash equivalents	$ 130,802	$ 27,736
Investments	900	10,914
Restricted cash and investments:		
Bond proceeds held by trustee	112,557	400,523
Restricted by RTA	20,302	23,201
Restricted for injury and damage reserve	109,057	83,180
Other assets:		
Cash and investments for supplemental retirement plan	138	96
Total	$ 373,756	$ 545,650

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2007 and 2006 (in thousands):

	2007	2006
Investments:		
Certificates of deposit	$ 4,020	$ 4,020
Guaranteed investment contracts	44,508	291,377
Money market mutual funds	47,062	34,864
Repurchase agreements	95,935	126,485
U.S. government agencies	93,035	49,589
U.S. Treasury bills	-	10,015
Commercial paper	79,896	39,972
Total investments	364,456	556,322
Deposits with financial institutions	9,300	(10,672)
Total deposits and investments	$ 373,756	$ 545,650

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investment Policy: CTA investments are made in accordance with the Public Funds Investment Act (30 ILCS 235/1) (the Act) and, as required under the Act, the Chicago Transit Authority Investment Policy (the Investment Policy). The Investment Policy does not apply to the Employees Retirement Plan, which is a separate legal entity. Additionally, the CTA Investment Policy does not apply to the Supplemental Retirement Plan, which is directed by the Employee Retirement Review Committee.

In accordance with the Act and the Investment Policy, CTA invests in the following types of securities:

1. United States Treasury Securities (Bonds, Notes, Certificates of Indebtedness, and Bills). CTA may invest in obligations of the United States government, which are guaranteed by the full faith and credit of the United States of America as to principal and interest.
2. United States Agencies. CTA may invest, bonds, notes, debentures, or other similar obligations of the United States or its agencies. Agencies include: (a) federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit bank, or other entities authorized to issue debt obligations under the Farm Credit Act of 1971, as amended; (b) federal home loan banks and the federal home loan mortgage corporation; and (c) any other agency created by an act of Congress.
3. Bank Deposits. CTA may invest in interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.), provided that any such bank must be insured by the Federal Deposit Insurance Corporation (the FDIC).
4. Commercial Paper. CTA may invest in short-term obligations (commercial paper) of corporations organized in the United States with assets exceeding $500 million, provided that: (a) such obligations are at the time of purchase at the highest classification established by at least two standard rating services and which mature not later than 180 days from the date of purchase; and (b) such purchases do not exceed 10% of the corporation's outstanding obligations.
5. Mutual Funds. CTA may invest in mutual funds which invest exclusively in United States government obligations and agencies.
6. Discount Obligations. CTA may invest in short-term discount obligations of the Federal National Mortgage Association.
7. Investment Pool. CTA may invest in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act (15 ILCS 505/17).

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

1. Repurchase Agreements. CTA may invest in repurchase agreements for securities that are authorized investments under the Investment Policy, subject to all of the requirements of the Act, provided that: (a) the securities shall be held by an authorized custodial bank; and (b) each transaction must be entered into under terms of an authorized master repurchase agreement.
2. Investment Certificates. CTA may invest in investment certificates issued by FDIC-insured savings banks or FDIC-insured savings and loan associations.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTA's deposits may not be returned. The CTA's investment policy requires that deposits which exceed the amount insured by the FDIC be collateralized, at the rate of 102% of such deposits, by bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the U.S. government. As of December 31, 2007 and 2006 the CTA's bank balances of $16,085,000 and $258,000 were subject to custodial credit risk as they were neither insured nor collateralized.

Interest Rate Risk: Interest rate risk is the risk that the fair value of the CTA's investments will decrease as a result of an increase in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Investment Policy limits the term of investments as follows:

Instrument type	Term of investment
U.S. treasuries	3 years
Repurchase agreements	330 days
Certificates of deposit	365 days
Commercial paper	180 days
U.S. Government obligations	3 years
Federal National Mortgage Assn.	3 years
Mutual funds	n.a.
Investment pool	n.a.

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

As of December 31, 2007, the maturities for the CTA's fixed-income investments are as follows (in thousands):

		Investment maturities (by years)	
	Fair value	Less than 1	1-5
Guaranteed investment contracts	$ 44,508	$ 44,508	$ -
Money market mutual funds	47,062	47,062	-
Repurchase agreements	95,935	99,935	-
U.S. government agencies	93,035	93,035	-
Commercial paper	79,896	79,896	-
Total	$ 360,436	$ 364,436	$ -

As of December 31, 2006, the maturities for the CTA's fixed-income investments are as follows (in thousands):

		Investment maturities (by years)	
	Fair value	Less than 1	1-5
Guaranteed investment contracts	$ 291,377	$ 291,377	$ -
Money market mutual funds	34,864	34,864	-
Repurchase agreements	126,485	126,485	-
U.S. government agencies	49,589	45,600	3,989
U.S. Treasury bills	10,015	10,015	-
Commercial paper	39,972	39,972	-
Total	$ 552,302	$ 548,313	$ 3,989

Credit Risk: Credit risk is the risk that the CTA will not recover its investments due to the failure of the counterparty to fulfill its obligation. As of December 31, 2007, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

	Fair value	Credit ratings			
		AAA	AA	A	Not rated
Guaranteed investment contracts	$ 44,508	$ -	$ -	$ -	$ 44,508
Money market mutual funds	47,062	-	-	-	47,062
Repurchase agreements	95,935	79,000	-	-	16,935
U.S. government agencies	93,035	86,381	-	-	6,654
Commercial paper	79,896	-	-	79,896	-
Total	$360,436	$165,381	$ -	$ 79,896	$115,159

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

As of December 31, 2006, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

	Fair value	Credit ratings AAA	AA	A	Not rated
Guaranteed investment contracts	$291,377	$ -	$ -	$ -	$291,377
Money market mutual funds	34,864	-	-	-	34,864
Repurchase agreements	126,485	53,000	-	-	73,485
U.S. government agencies	49,589	49,589	-	-	-
U.S. Treasury bills	10,015	10,015	-	-	-
Commercial paper	39,972	-	-	39,972	-
Total	$552,302	$112,604	$ -	$ 39,972	$399,726

In addition, the Investment Policy requires that whenever funds are deposited in a financial institution in an amount which causes the total amount of the Authority's funds deposited with such institution to exceed the amount which is protected by the FDIC, all deposits which exceed the amount insured be collateralized, at the rate of 102% of such deposit, by: bonds, notes, certificates of indebtedness, Treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or, at the rate of 110% of such deposit, by: bonds, notes, debentures, or other similar obligations of agencies of the United States of America.

Custodial Credit Risk – Investments: Custodial credit risk is the risk that, in the event of the failure of the counterparty. CTA will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. The Investment Policy requires that investment securities be held by an authorized custodial bank pursuant to a written custodial agreement.

Cash, Cash Equivalents, and Investments of the Fiduciary Activities: Cash, cash equivalents, and investments are reported in the Fiduciary Fund as follows as of December 31, 2007 and 2006 (in thousands):

	2007	2006
Investments, at fair value:		
Short-term investments	$ 808	$ 813
Government agency commingled funds	5,653	5,571
Common stock	13,024	12,620
Total	$ 19,485	$ 19,004

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investment Policy: The Employee Retirement Review Committee has been appointed as the fiduciary having responsibility for administering the Open Supplemental Retirement Plan, including the responsibility for allocating the assets of the trust fund among the separate accounts, for monitoring the diversification of the investments of the trust fund, for determining the propriety of investments of the trust fund in foreign securities and of maintaining the custody of foreign investments abroad, for assuring that the plan does not violate any provisions of applicable law limiting the acquisition or holding of certain securities or other property, and for the appointment and removal of an investment fiduciary. The Open Supplemental Retirement Plan is a qualified plan that is not subject to the Public Funds Investment Act.

In March 2005 the Employee Retirement Review Committee engaged a registered investment adviser under the Investment Advisers Act of 1940. The investment adviser is authorized to invest and reinvest the assets of the Open Supplemental Retirement Plan and keep the same invested, without distinction between principal and income, in any property, real, personal or mixed or share or part thereof, or part interest thereof, or part interest therein, wherever situated, and whether or not productive of income, including: capital, common and preferred stock, and short-term investments.

Interest Rate Risk: Interest rate risk is the risk that the fair value of the Open Supplemental Retirement Plan investments will decrease as a result of an increase in interest rates. The Employee Retirement Review Committee mitigates exposure to changes in interest rates by requiring that the assets of the Trust be invested in accordance with the following asset allocation guidelines:

Asset class	Allocation
U.S. large cap equities	50.00%
U.S. small cap equities	10.00
Non-U.S. equities	5.00
U.S. fixed income	35.00
	100.00%

As of December 31, 2007, the maturities for the Plan's fixed-income investments are as follows (in thousands):

	Fair value	Investment Maturities (in years) Less than 1	1 - 5
Short-term investment funds	$ 808	$ 808	$ -
U.S. government agency commingled funds	5,653	5,653	-
Total	$ 6,461	$ 6,461	$ -

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

As of December 31, 2006, the maturities for the Plan's fixed-income investments are as follows (in thousands):

	Fair value	Investment Maturities (in years) Less than 1	1 - 5
Short-term investment funds	$ 813	$ 813	$ -
U.S. government agency commingled funds	5,571	5,571	-
Total	$ 6,384	$ 6,384	$ -

Credit Risk: Credit risk is the risk that the Open Supplemental Retirement Plan will not recover its investments due to the failure of the counterparty to fulfill its obligation.

As of December 31, 2007, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

	Fair value	Credit ratings Government Secured	Not Rated
Short-term investment funds	$ 808	$ -	$ 808
U.S. government agency commingled funds	5,653	5,653	-
Total	$ 6,461	$ 5,653	$ 808

As of December 31, 2006, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

	Fair value	Credit ratings Government Secured	Not Rated
Short-term investment funds	$ 813	$ -	$ 813
U.S. government agency commingled funds	5,571	5,571	-
Total	$ 6,384	$ 5,571	$ 813

Custodial Credit Risk – Investments: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Open Supplemental Retirement Plan will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. The investment securities are held in trust pursuant to a written trust agreement.

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's foreign currency risk is limited to its investments in an international equity commingled fund with a fair value of $1,184,000 and $1,105,000 as of December 31, 2007 and 2006, respectively.

Securities Lending: The Open Supplemental Plan of the CTA participates in a domestic and international securities lending program whereby securities are loaned to investment brokers/dealers (borrower). Securities loaned are collateralized at 102% of the domestic equity and US dollar-denominated securities that can be loaned and not less than 105% if the borrowed securities if the are denominated in different currencies. The fair value of the securities loaned was approximately $11,392,000 and $2,095,000 as of December 31, 2007 and 2006, respectively. The fair value of the associated collateral received was approximately $11,679,000 and $2,127,000 as of December 31, 2007 and 2006, respectively.

NOTE 6 - CAPITAL ASSETS

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, buses, and equipment 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 the federal projects, with the balance of the cost being financed principally by IDOT, the RTA, and CTA bonds. Commitments of approximately $469,782,000 and $474,283,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2007 and 2006, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, or CTA bonds. Commitments of approximately $245,801,000 and $220,062,000 have been entered into for these federal and state (including local) capital grants as of December 31, 2007 and 2006, respectively.

Funding sources for transportation property and equipment of the CTA are as follows as of December 31, 2007 and 2006 (in thousands of dollars):

	2007	2006
Funding source:		
Federal (FTA)	$ 4,766,864	$ 4,296,228
State (principally IDOT)	570,408	557,261
RTA	1,736,990	1,670,859
CTA (generally prior to 1973)	124,854	126,573
Other	264,248	257,882
Total	$ 7,463,364	$ 6,908,803

(Continued)

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended December 31, 2007 are as follows (in thousands of dollars):

	Balance at January 1, 2007	Increase	Decrease	Balance at December 31, 2007
Capital assets not being depreciated:				
Land	$ 119,419	$ 490	$ (652)	$ 119,257
Construction in process	694,234	1,014,077	(1,042,265)	666,046
Total capital assets not being depreciated	813,653	1,014,567	(1,042,917)	785,303
Capital assets being depreciated:				
Land improvements	19,141	1,813	-	20,954
Buildings	1,549,652	185,792	(546)	1,734,898
Vehicles	1,971,486	152,502	(55,886)	2,068,102
Elevated structure track	1,349,446	112,956	(101)	1,462,301
Signal and communication	724,628	152,319	(12,166)	864,781
Other equipment	480,797	55,289	(9,061)	527,025
Total capital assets being depreciated	6,095,150	660,671	(77,760)	6,678,061
Less accumulated depreciation for:				
Land improvements	11,523	1,741		13,264
Buildings	665,637	70,282	(546)	735,373
Vehicles	1,343,332	188,802	(55,886)	1,476,248
Elevated structure track	806,260	53,719	(101)	859,878
Signal and communication	486,910	38,389	(12,165)	513,134
Other equipment	392,970	34,798	(8,007)	419,761
Total accumulated depreciation	3,706,632	387,731	(76,705)	4,017,658
Total capital assets being depreciated, net	2,388,518	272,940	(1,055)	2,660,403
Total capital assets, net	$ 3,202,171	$ 1,287,507	$ (1,043,972)	$ 3,445,706

(Continued)

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended December 31, 2006 are as follows (in thousands of dollars):

	Balance at January 1, 2006	Increase	Decrease	Balance at December 31, 2006
Capital assets not being depreciated:				
Land	$ 104,102	$ 15,613	$ (296)	$ 119,419
Construction in process	378,141	924,757	(608,664)	694,234
Total capital assets not being depreciated	482,243	940,370	(608,960)	813,653
Capital assets being depreciated:				
Land improvements	12,757	6,384	-	19,141
Buildings	1,532,399	21,404	(4,151)	1,549,652
Vehicles	1,855,931	156,058	(40,503)	1,971,486
Elevated structure track	1,314,934	35,710	(1,198)	1,349,446
Signal and communication	712,681	16,584	(4,637)	724,628
Other equipment	455,195	35,663	(10,061)	480,797
Total capital assets being depreciated	5,883,897	271,803	(60,550)	6,095,150
Less accumulated depreciation for:				
Land improvements	10,098	1,783	(358)	11,523
Buildings	606,629	62,111	(3,103)	665,637
Vehicles	1,212,490	171,328	(40,486)	1,343,332
Elevated structure track	744,387	62,854	(981)	806,260
Signal and communication	456,549	34,983	(4,622)	486,910
Other equipment	358,384	43,851	(9,265)	392,970
Total accumulated depreciation	3,388,537	376,910	(58,815)	3,706,632
Total capital assets being depreciated, net	2,495,360	(105,107)	(1,735)	2,388,518
Total capital assets, net	$ 2,977,603	$ 835,263	$ (610,695)	$ 3,202,171

(Continued)

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2007 are as follows (in thousands of dollars):

	Balance at January 1, 2007	Additions	Reductions	Balance at December 31, 2007	Amount due within one year
Self insurance claims (note 11)	$ 165,843	$ 265,066	$ (238,159)	$ 192,750	$ 74,795
Capital lease obligations (note 8)	1,741,828	115,819	(107,226)	1,750,421	206,765
Premium on capital lease obligation	6,062	-	(341)	5,721	-
Deferred revenue – leasing transactions (note 8)	41,497	-	(4,262)	37,235	-
Bonds payable (note 9)	507,295	-	(18,410)	488,885	27,475
Premium on bonds payable	41,060	-	(4,158)	36,902	-
Accrued pension costs (note 10):					
Employees Retirement Plan	729,163	161,429	-	890,592	-
Supplemental Retirement Plans	18,857	-	(840)	18,017	-
Other Postemployment healthcare	515,374	144,355	-	659,729	-
Other	4,579	-	(246)	4,333	-
Total	$ 3,771,558	$ 686,669	$ (373,642)	$ 4,084,585	$ 309,035

Changes in long-term obligations for the year ended December 31, 2006 are as follows (in thousands of dollars):

	Balance at January 1, 2006	Additions	Reductions	Balance at December 31, 2006	Amount due within one year
Self insurance claims (note 11)	$ 168,958	$ 255,522	$ (258,637)	$ 165,843	$ 63,411
Capital lease obligations (note 8)	1,736,677	205,093	(199,942)	1,741,828	107,226
Premium on capital lease obligation	6,687	6,062	(6,687)	6,062	-
Deferred revenue – leasing transactions (note 8)	45,759	-	(4,262)	41,497	-
Bonds payable (note 9)	336,035	275,000	(103,740)	507,295	18,410
Premium on bonds payable	26,007	19,652	(4,599)	41,060	-
Accrued pension costs (note 10):					
Employees Retirement Plan	755,323	-	(26,160)	729,163	-
Supplemental Retirement Plans	19,606	-	(749)	18,857	-
Other Postemployment healthcare	247,263	268,111	-	515,374	-
Other	5,190	-	(611)	4,579	-
Total	$ 3,347,505	$ 1,029,440	$ (605,387)	$ 3,771,558	$ 189,047

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital Lease – Public Building Commission: In 2003, the Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA in the amount of $119,020,000. The bonds were issued to pay costs associated with the acquisition of real property and construction of a building, and facilities, including certain furniture, fixtures, and equipment. The real property, building and facilities, and all furniture, fixtures, and equipment are owned by the PBC and leased to the CTA for use as its headquarters.

On October 26, 2006, the Public Building Commission of Chicago (PBC) issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of $91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The principal amount of the bonds refunded was $111,120,000.

The proceeds from the sale of the 2006 bonds are being held in escrow under an escrow refunding agreement and have been invested in United States Treasury obligations. The principal amount of such obligations, together with interest earned thereon, will permit the payment of principal and interest on the refunded bonds up to an including their respective call dates. The refunded bonds are treated in the financial statements as defeased obligations. Accordingly, neither the trust account assets nor the refunded bonds appear in the accompanying financial statements. This refunding decreased debt service payments over the next 27 years by approximately $388,000, resulting in an economic gain of approximately $20,404,000. Based upon the requirements of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Accounts*, the CTA recorded a deferred amount (loss) on refunding of $2,395,000. This amount is recorded as a component of long-term debt in the accompanying balance sheets.

The bonds are payable from and secured by the lease entered into between the Commission and the CTA and are considered a general obligation of the CTA payable from any lawfully available funds. Bond issue costs and premium related to this transaction are presented as such on the balance sheets. The present value of the future payments to be made by the CTA under the lease of approximately $88,965,000 is reflected in the accompanying December 31, 2007 balance sheet as a capital lease obligation.

Capital Lease – Lease and Leaseback Transactions: In 2003, CTA entered into a lease and leaseback agreement with a third party pertaining to certain buses, with a book value of $22,065,000 at December 31, 2007. Under the bus lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately $15,022,000 is reflected in the accompanying December 31, 2007 balance sheet as a capital lease obligation.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

During 2002, CTA entered into two lease and leaseback agreements with a third party pertaining to certain buses (lots 1 and 2), with a book value of $35,775,000 at December 31, 2007. Under the bus lease agreements, which provide certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately $106,256,000 is reflected in the accompanying December 31, 2007 balance sheet as a capital lease obligation.

During 2002, CTA entered into a lease and leaseback agreement with a third party pertaining to certain qualified technological equipment (QTE), with a book value of $25,326,000 at December 31, 2007. Under the QTE lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately $173,733,000 is reflected in the accompanying December 31, 2007 balance sheet as a capital lease obligation.

During 1998, the CTA entered into a lease and leaseback agreement (the 1998 Agreement) with a third party pertaining to a rail line (green line), with a book value of $254,715,000 at December 31, 2007. The 1998 Agreement, which provides certain cash and tax benefits to the third party, also provides for a trust established by the CTA 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 CTA under a separate lease (the 1998 Lease). The present value of the future payments to be made by the CTA under the lease of approximately $271,032,000 is reflected in the accompanying December 31, 2007 balance sheet as a capital lease obligation.

During 1997, the CTA entered into four lease and leaseback agreements (the 1997 Agreements) with a third party pertaining to certain of its facilities having a book value of $50,341,000 at December 31, 2007. The 1997 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA 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 CTA under separate leases (the Leases). 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 CTA and may take possession of the facilities upon a default by the CTA under the Lease. No other lease payments are required until the end of each lease. The present value of the future payments to be made by the CTA under the leases (net of the payment due from the Equity Trust in 2023 and 2024) of approximately $32,464,000 is reflected in the accompanying December 31, 2007 balance sheet as a capital lease obligation.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

In connection with the 1997 Agreements, the CTA also received proceeds of $11,900,000. The FTA has approved the CTA's right to the benefit received from these transactions. The CTA has elected to defer recognition of the proceeds over the remaining lease term.

During 1996, the CTA entered into similar lease and leaseback agreements (the 1996 Agreements) with a third party pertaining to certain of its facilities, with a book value of $54,414,000 at December 31, 2007. The 1996 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA 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 CTA under a separate lease (the 1996 Lease). The present value of the future payments to be made by the CTA under the leases (net of the payment due from the 1996 Equity Trust in 2024) of approximately $32,610,000 is reflected in the accompanying December 31, 2007 balance sheet as a capital lease obligation.

In connection with the 1996 Agreements, the CTA also received proceeds of $10,900,000 and agreed to make approximately $80,000,000 of improvements to one of the facilities. The FTA has approved the CTA's right to the benefit received from these transactions. The CTA has elected to defer recognition of the proceeds over the remaining lease term.

During 1995, the CTA entered into sale/leaseback agreements (the 1995 Agreements) with third parties. The 1995 Agreements provided for the CTA to sell and lease back certain rail equipment totaling $487,100,000 at cost for a period of nineteen years beginning on the date of the respective transaction. At December 31, 2007, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling $1,030,339,000. The CTA 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.

Change in Capital Lease Obligations: Changes in capital leases for the year ended December 31, 2007 are as follows (in thousands of dollars):

2007	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	$ 23,555	$ 840	$ (9,373)	$ 15,022	$ 840	$ -
2002 (Buses)	101,157	5,098	-	106,255	5,098	-
2002 (QTE)	169,877	10,784	(6,928)	173,733	10,784	103,094
1998 (Green)	276,971	18,912	(24,852)	271,031	18,912	38,183
1997 (Garages)	30,194	2,270	-	32,464	2,270	-
1996 (Skokie/Racine)	30,377	2,234	-	32,611	2,233	-
1995 (Pickle)	1,018,357	75,681	(63,698)	1,030,340	75,680	63,698
Total lease/leasebacks	1,650,488	115,819	(104,851)	1,661,456	115,817	204,975
2006 PBC lease	91,340		(2,375)	88,965	3,794	1,790
Total capital lease obligation	$ 1,741,828	$ 115,819	$ (107,226)	$ 1,750,421	$ 119,611	$ 206,765

* Additions include accretion of interest.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Changes in capital leases for the year ended December 31, 2006 are as follows (in thousands of dollars):

2006	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	$ 24,058	$ 859	$ (1,362)	$ 23,555	$ 859	$ 9,373
2002 (Buses)	96,302	4,855	-	101,157	4,855	-
2002 (QTE)	166,251	10,554	(6,928)	169,877	10,554	6,928
1998 (Green)	271,319	18,487	(12,835)	276,971	18,487	24,852
1997 (Garages)	28,081	2,113	-	30,194	2,113	-
1996 (Skokie/Racine)	28,299	2,078	-	30,377	2,078	-
1995 (Pickle)	1,007,247	74,807	(63,697)	1,018,357	74,807	63,698
Total lease/leasebacks	1,621,557	113,753	(84,822)	1,650,488	113,753	104,851
2003 PBC lease	115,120	-	(115,120)	-	5,848	-
2006 PBC lease	-	91,340	-	91,340	-	2,375
Total PBC leases	115,120	91,340	(115,120)	91,340	5,848	2,375
Total capital lease obligation	$ 1,736,677	$ 205,093	$ (199,942)	$ 1,741,828	$ 119,601	$ 107,226

* Additions include accretion of interest.

Future Minimum Lease Payments: As of December 31, 2007, future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2008	$ 211,149
2009	95,772
2010	109,211
2011	99,210
2012	98,004
2013 – 2017	1,699,763
2018 – 2022	367,430
2023 – 2027	218,710
2028 – 2032	30,939
2033	6,188
Total minimum lease payments	2,936,376
Less interest	1,185,955
	$ 1,750,421

NOTE 9 - BONDS PAYABLE

2003 Series Capital Grant Receipts Revenue Bonds: On March 12, 2003, the CTA issued Capital Grant Receipts Revenue Bonds, Douglas Branch Project, in the amount of $207,200,000, along with a premium of $9,857,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance a portion of the costs of the extensive rehabilitation of eight rail stations and five miles of track, as well as the installation of signal and communications equipment, the traction power system, and various infrastructure improvements that together constitute the Douglas Branch Reconstruction Project.

During 2006, the CTA redeemed all the outstanding Series 2003 bonds prior to maturity.

2004 Series Capital Grant Receipts Revenue Bonds: On October 20, 2004, the CTA issued Capital Grant Receipts Revenue Bonds, "2004 Project," in the amount of $250,000,000, along with a premium of $26,713,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance or reimburse the CTA for prior expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2004 Project."

The Series 2004 bonds bear interest ranging from 3.60% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2006 through June 1, 2016.

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
2008	$ 19,335	$ 10,543	$ 29,878
2009	20,250	9,563	29,813
2010	21,295	8,493	29,788
2011	22,390	7,368	29,758
2012	23,545	6,173	29,718
2013	24,780	4,905	29,685
2014	26,085	3,602	29,687
2015	27,385	2,232	29,617
2016	28,820	757	29,577
Total	$ 213,885	$ 53,636	$ 267,521

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

2006 Series Capital Grant Receipts Revenue Bonds: On November 1, 2006, the CTA issued Capital Grant Receipts Revenue Bonds, "2006 Project," in the amount of $275,000,000, along with a premium of $19,652,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2006 Project."

The Series 2006 bonds bear interest ranging from 4.0% to 5.0%. Scheduled interest on the 2006 bonds will be funded through June 1, 2007 with bond proceeds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2008 through June 1, 2021.

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
2008	$ 8,140	$ 13,223	$ 21,363
2009	8,465	12,898	21,363
2010	8,800	12,559	21,359
2011	9,155	12,207	21,362
2012	9,520	11,841	21,361
2013	9,900	11,460	21,360
2014	10,395	10,965	21,360
2015	10,915	10,445	21,360
2016	11,465	9,900	21,365
2017	34,070	9,412	43,482
2018	35,770	7,709	43,479
2019	37,560	5,920	43,480
2020	39,435	4,042	43,477
2021	41,410	2,071	43,481
Total	$ 275,000	$ 134,652	$ 409,652

(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Plan Descriptions

Employees' Plan: The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Retirement Plan (the Employees' Plan) is governed by the terms of the employees' collective bargaining agreement.

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. For those hired after September 5, 2001, benefits will be reduced if they retire before age 65 or with less than a combination of age 55 and 25 years of service. The covered payroll for the Employees' Plan for the fiscal years ended December 31, 2007 and 2006 was $562,567,000 and $547,532,000, respectively. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

Supplemental Plans: The CTA also maintains separate single-employer, defined benefit pension plans for selected individuals. The supplemental retirement plans provide benefits to employees of the CTA in certain employment classifications. The supplemental retirement plans consist of the: (1) board member plan (2) closed supplemental plan for members that retired or terminated employment before March 2005, including early retirement incentive, and (3) open supplemental plan for active employees and members retiring after March 2005. CTA received qualification under Section 401(a) of the Internal Revenue Code for the supplemental plan and established a qualified trust during 2005 for members retiring after March 2005 (Open Supplemental Retirement Plan). The Open Supplemental Retirement Plan is reported in a fiduciary fund, whereas the activities for the closed and board plans are included in the financial statements of the CTA's business-type activities.

Employees of the applicable employment classifications are eligible for retirement benefits based on age and service credit as follows: at age 65; or age 55 with at least 3 years of service credit; or at any age with 25 or more years of service credit. The minimum monthly benefit is equal to one-sixth of one percent of the employee's average annual compensation multiplied by the years of continuous service. Employees are eligible for disability benefits after completion of 10 years of creditable continuous service or 5 years if the disability results from an on the job injury. Death benefits are payable to a designated beneficiary upon death of the retiree. Qualified dependents of the employee are eligible for monthly survivor benefits if the option was selected by the retiree. Any purchased service credit will be included in the determination of retirement benefits.

(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

The CTA makes contributions from time to time to the trustee of the Open Supplemental Retirement Plan, while funding for the Closed and Board Supplemental Retirement Plans are on a pay-as-you-go basis. Employees are not required to make contributions to the supplemental retirement plans except those related to purchase service credit (approved prior governmental service).

Participants in the supplemental retirement plans at December 31, 2007 are as follows:

	Open	**Closed**	**Board**
Retirees and beneficiaries currently receiving benefits	27	455	18
Terminated employees entitled to but not yet receiving benefits	12	-	3
Active plan members	116	-	7
Total	155	455	28

Participants in the supplemental retirement plans at December 31, 2006 are as follows:

	Open	**Closed**	**Board**
Retirees and beneficiaries currently receiving benefits	15	464	17
Terminated employees entitled to but not yet receiving benefits	9	-	5
Active plan members	129	-	7
Total	153	464	29

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2007 and 2006 was $13,551,000 and $14,840,000, respectively. The covered payroll for the Board Supplemental Retirement Plan was $200,000 for the fiscal year ended December 31, 2007 and 2006.

(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy and Annual Pension Cost: Contribution requirements of the Employees' Plan are governed by collective bargaining agreements. Contributions for the supplemental plans are actuarially determined but may be amended by the board of trustees of the Plan. The CTA's annual pension cost for the current year and related information for each plan are as follows (in thousands of dollars):

	Employees' Plan Pension	Open Supplemental	Closed Supplemental	Board Plan
Contribution rates:				
CTA	4.4%	Actuarial	Pay-Go Funding	Pay-Go Funding
Plan members	2.2	None	None	None
Annual pension cost (APC)	$186,455	$242	$2,674	$274
Actual 2007 contributions:				
CTA	$25,026	$0	$3,504	$284
Plan members	$12,513	$141	$0	$6
Actuarial valuation date	January 1, 2007	January 1, 2007	January 1, 2007	January 1, 2007
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar	Level dollar	Level dollar
Remaining amortization period	30 years	30 years	14 years	30 years
Asset valuation method	5-year smoothed market	Fair market value	Fair market value	Fair market value
Actuarial assumptions:				
Investment rate of return	9.0%	8.0%	6.0%	6.0%
Projected salary increases	5.5	5.5	N/A	–
Includes inflation at	3.5	3.5	3.5	3.5

The per capita healthcare claim costs and dependent contribution rates were assumed to increase as follows:

	Medical Trend Rate	Perscription Trend Rate
Plan year:		
2008	10%	12%
2009	9%	11%
2010	8%	10%
2011	7%	9%
2012	6%	8%
2013	5%	7%
2014	5%	6%
2015 and after	5%	5%

(Continued)

NOTE 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 (asset) (NPO) during the year ended December 31, 2007 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	**Open**	**Closed**	**Board**
Annual required contribution	$ 185,944	$ 200	$ 3,450	$ 288
Interest on NPO	65,625	(647)	1,053	78
Adjustment to ARC	(65,114)	689	(1,829)	(92)
Annual pension cost	186,455	242	2,674	274
Contributions made	25,026	-	3,504	284
Increase (decrease) in NPO	161,429	242	(830)	(10)
NPO – December 31, 2006	729,163	(8,089)	17,546	1,311
NPO – December 31, 2007	$ 890,592	$ (7,847)	$ 16,716	$ 1,301

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2006 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	**Open**	**Closed**	**Board**
Annual required contribution	$ 183,001	$ -	$ 3,474	$ 276
Interest on NPO	67,979	(650)	1,096	80
Adjustment to ARC	(64,417)	692	(1,822)	(94)
Annual pension cost	186,563	42	2,748	262
Contributions made	23,850	-	3,467	292
Increase (decrease) in NPO	162,713	42	(719)	(30)
NPO – December 31, 2005	755,323	(8,131)	18,265	1,341
Adjust allocation of healthcare	(188,873)	-	-	-
NPO – December 31, 2006	$ 729,163	$ (8,089)	$ 17,546	$ 1,311

The allocation of actuarial value of assets between the retiree healthcare account and the pension account was revised due to the significant spread between the actuarial value of assets and the market value of assets. For the retiree healthcare account an adjustment was made to set the actuarial value of assets to the market value as of December 31, 2006. The reclassification of the GASB 27 balance sheet liability at December 31, 2006, between pension and OPEB benefits was accomplished by the following:

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

- Allocate the total actuarial valuation of assets at the beginning of the fiscal year in proportion to the market value of the pension account and retiree healthcare account, starting with fiscal year beginning January 1, 1996.
- Recalculate separate ARCs for pension and OPEB based on the updated actuarial value of assets.
- Update the annual pension/OPEB costs and net pension/OPEB obligation separately for pension and OPEB benefits.

The adjustment reduces the GASB 27 balance sheet liability for pension benefits at December 31, 2006, from $918 million to $729 million. The adjustment did not change the total balance sheet liability.

Three-year Trend Information: The following summarizes fund information for the plans (in thousands of dollars):

	Year ended	Annual pension cost (APC)	Actual contributions	Percentage of APC contributed	Net pension obligation
Employees' Plan Pension	December 31, 2007	$ 186,455	$ 25,026	13.4%	$ 890,592
	December 31, 2006	156,020	23,850	15.3	729,163
	December 31, 2005	136,083	19,808	14.6	596,994
Open Supplemental Plan	December 31, 2007	$ 242	$ -	0.0%	$ (7,847)
	December 31, 2006	42	-	0.0	(8,089)
	December 31, 2005	1,482	15,708	1,059.9	(8,131)
Closed Supplemental Plan	December 31, 2007	$ 2,674	$ 3,504	131.0%	$ 16,716
	December 31, 2006	2,748	3,467	126.2	17,546
	December 31, 2005	2,236	3,521	157.5	18,265
Board Supplemental Plan	December 31, 2007	$ 274	$ 284	103.6%	$ 1,301
	December 31, 2006	262	292	111.5	1,311
	December 31, 2005	246	286	116.3	1,341

NOTE 11 - POSTEMPLOYMENT HEALTHCARE

Plan Descriptions - OPEB

Employees' Plan – Retiree Healthcare Benefits: The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Retirement Plan for CTA employees (the Employees' Plan) is governed by the terms of the employees' collective bargaining agreement and is described in detail at Note 10.

NOTE 11 - POSTEMPLOYMENT HEALTHCARE (Continued)

The Employees' Plan provides death, disability, and health benefits to participants. For financial reporting purposes, the postemployment healthcare benefits are considered, in substance, a postemployment healthcare plan administered by the pension plan. Members are eligible for health benefits if they are in receipt of retirement or disability benefits from the Plan. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

Supplemental Plans – Retiree Healthcare Benefits: Employees of the CTA in certain employment classifications are eligible to participate in the supplemental retirement plan. Only supplemental plan members with bridged service will be eligible for retiree healthcare benefits from the supplemental plan. The benefits are dependent on the amount of bridged service and the amount of service at the CTA that is credited in the Employees Plan. In general, employees with less than 10 years of CTA service will receive healthcare benefits from the supplemental plan only. Employees with more than 10 years of CTA service are eligible for retiree healthcare benefits from the Employees Plan.

Chicago Transit Board members participate in a separate Board Member Retirement Plan and a Supplemental Plan. Board members with greater than five years of service are eligible for healthcare benefits immediately after termination or retirement.

Funding Policy - OPEB

Employees' Plan – Retiree Healthcare Benefits: The contribution levels are set by the collective bargaining agreement. The collective bargaining agreement in effect during 2006 and 2007 required contributions of six percent and three percent of payroll from the employer and employees, respectively which covers both pension and healthcare benefits. The employer and employee contributions are allocated between pension and healthcare by the plan. The allocation is based on the annual required contribution for pension and healthcare benefits for the fiscal year and is limited by Section 401 (h) of the Internal Revenue Code. For the fiscal year 2007 contribution, approximately 1.6 percent of payroll for the CTA and 0.8 percent of payroll for the employees were allocated to healthcare benefits.

Supplemental Plan – Retiree Healthcare Benefits: Funding for the Supplemental and Board Retiree Healthcare Plans are on a pay-as-you-go basis. Active employees are not required to make contributions to the supplemental healthcare plan.

(Continued)

NOTE 11 - POSTEMPLOYMENT HEALTHCARE (Continued)

Annual OPEB Cost and Net OPEB Obligation. The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation (dollar amounts in thousands):

	Employees' Plan Healthcare	Supplemental	Total
Annual required contribution	$ 159,021	$ 556	$ 159,577
Interest on net OPEB obligation	25,769	-	25,769
Adjustment to ARC	(31,929)	-	(31,929)
Annual OPEB expense	152,861	556	153,417
Contributions made	(8,728)	(334)	(9,062)
Increase (decrease) in net OPEB obligation	144,133	222	144,355
Net OPEB obligation – December 31, 2006	515,374	-	515,374
Net OPEB obligation – December 31, 2007	$ 659,507	$ 222	$ 659,729

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2007 and the two preceding years were as follows (dollar amounts in thousands):

Employees Plan:

Fiscal Year Ended	OPEB Cost	Percent OPEB Cost Contributed	Net OPEB Obligation
2007	$ 152,861	5.7%	$ 659,507
2006	121,481	9.6	515,374
2005	130,003	8.2	405,594

Supplemental Plan:

Fiscal Year Ended	OPEB Cost	Percent OPEB Cost Contributed	Net OPEB Obligation
2007	$ 556	60.2%	$ 222
2006	-	-	-
2005	-	-	-

(Continued)

NOTE 11 - POSTEMPLOYMENT HEALTHCARE (Continued)

Funded Status and Funding Progress - OPEB

Employee's Plan – Retiree Healthcare Benefits:

As of January 1, 2007 the most recent actuarial valuation date, the plan was 3.3 percent funded. The actuarial accrued liability for benefits was $1,765,884,000, and the actuarial value of assets was $58,856,000, resulting in an unfunded actuarial accrued liability (UAAL) of $1,707,028,000. The covered payroll (annual payroll of active employees covered by the plan) was $562,567,000, and the ratio of the UAAL to the covered payroll was 303.4 percent.

Supplemental and Board Plans – Retiree Healthcare Benefits

As of January 1, 2008 the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $6,287,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $6,287,000. The covered payroll (annual payroll of active employees covered by the plan) was $2,771,000, and the ratio of the UAAL to the covered payroll was 226.9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 11 - POSTEMPLOYMENT HEALTHCARE (Continued)

In the actuarial valuation as of January 1, 2007, and January 1, 2008, the projected unit credit cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an initial healthcare cost trend rate of 10 percent for medical benefit and 12 percent for prescription drug benefits, reduced by one percent per year until an ultimate rate of 5 percent is reached. Both rates included a 3.5 percent inflation assumption. The actuarial value of assets for the Employees' healthcare plan was marked to the market value of the retiree healthcare account as of January 1, 2007. The UAAL is being amortized as a level percentage of projected payroll over an open 30-year period. An open period amortization means that in subsequent valuations, the amortization period will remain at 30 years.

NOTE 12 - RISK MANAGEMENT

The CTA is exposed to various types of risk of loss, including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences. Also included are risks of loss associated with providing health, dental, and life insurance benefits to employees and retirees.

The CTA provides health insurance benefits to employees through two fully insured health maintenance organizations and a self-insured comprehensive indemnity/PPO plan. The CTA provides dental insurance benefits through two fully insured dental maintenance organizations and a self-insured dental indemnity plan. The CTA does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. The CTA provides life insurance benefits for active and retired employees through an insured life insurance program.

The CTA is also self-insured for general liability, property and casualty, workers' compensation, employee accidents, environmental, business interruption, terrorism, and automotive liability losses arising from automotive liability, property, property-related business interruption, terrorism, employment-related suits, including discrimination and sexual harassment, and management liability of board members, directors, and officers of the CTA.

The RTA provides excess liability insurance to protect the self-insurance programs for general liability and terrorism currently maintained by the CTA. On November 8, 2005, a new policy was established through May 7, 2008 that covered injury and damage claims up to $35,000,000 per occurrence and $70,000,000 in the aggregate, with a $15,000,000 deductible. In 2007 and 2006, no CTA claim existed that would have been submitted under this insurance policy.

(Continued)

NOTE 12 - RISK MANAGEMENT (Continued)

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 $2,500,000 per occurrence up to a maximum of $47,500,000 from the Fund. The CTA is obligated to reimburse the Fund for any damages paid plus a floating interest rate. However, reimbursement payments, including interest, cannot exceed $3,500,000 in any one year. No borrowings were made from the Fund in fiscal year 2007 or 2006 to pay injury and damage claims.

Self-insured liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate for injury and damage claims is adjusted for a current trend rate and discount factor of 5.0% and 5.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 3.0% and 4.0%, respectively.

Changes in the balance of claims liabilities during the past two years are as follows (in thousands of dollars):

	Injury and damage	**Group health and dental**	**Workers' compensation**	**Total**
Balance at December 31, 2005	$ 92,359	$ 13,985	$ 62,614	$ 168,958
Funded	45,266	178,695	31,561	255,522
Funding (excess) per actuarial requirement	(18,999)	-	-	(18,999)
Payments	(26,454)	(177,957)	(35,227)	(239,638)
Balance at December 31, 2006	92,172	14,723	58,948	165,843
Funded	25,000	190,084	37,158	252,242
Funding (excess)/deficiency per actuarial requirement	(8,776)	-	21,600	12,824
Payments	(14,840)	(187,250)	(36,069)	(238,159)
Balance at December 31, 2007	$ 93,556	$ 17,557	$ 81,637	$ 192,750

(Continued)

NOTE 12 - RISK MANAGEMENT (Continued)

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 5 regarding cash and investment amounts maintained in this account.

NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS

Objective of the Derivative: The CTA negotiated a commodity swap agreement with two financial institutions to protect against market fluctuations in the price of diesel fuel.

Terms: The CTA entered into commodity swap agreements for NYMEX No. 2 heating oil as shown below. Payment between the swap parties is calculated as the average of the daily settlement price per gallon for the first nearby month of the NYMEX No. 2 heating oil futures contract.

2007 Commodity Swap Agreements:

Effective date	Termination date	Notional quantity per calculation period (gallons)	Total notional quantity (gallons)	Fair value
1/1/2007	12/31/2007	380,000	4,560,000	$ 181,184
1/1/2007	12/31/2007	380,000	4,560,000	126,844
1/1/2007	12/31/2007	190,000	2,280,000	72,067
1/1/2007	12/31/2007	190,000	2,280,000	83,562
1/1/2007	12/31/2007	190,000	2,280,000	72,067
1/1/2007	12/31/2007	190,000	2,280,000	83,562
1/1/2007	12/31/2007	190,000	2,280,000	116,622
1/1/2007	12/31/2007	190,000	2,280,000	116,622
				$ 852,530

(Continued)

NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

2006 Commodity Swap Agreements:

Effective date	Termination date	Notional quantity per calculation period (gallons)	Total notional quantity (gallons)	Fair value
11/1/2006	12/31/2006	712,500	1,425,000	$ (306,446)
1/1/2007	12/31/2007	380,000	4,560,000	(1,422,584)
1/1/2007	12/31/2007	380,000	4,560,000	(2,057,914)
1/1/2007	12/31/2007	190,000	2,280,000	(927,882)
1/1/2007	12/31/2007	190,000	2,280,000	(793,485)
11/1/2006	12/31/2006	475,000	950,000	(221,398)
11/1/2006	12/31/2006	712,500	1,425,000	(307,159)
1/1/2007	12/31/2007	190,000	2,280,000	(927,882)
1/1/2007	12/31/2007	190,000	2,280,000	(793,485)
1/1/2007	12/31/2007	190,000	2,280,000	(406,955)
1/1/2007	12/31/2007	190,000	38,974	(406,955)
				$ (8,572,145)

Fair Value: As of December 31, 2007 and 2006, the commodity swaps had a fair value of $852,530 and ($8,572,146), respectively, estimated by discounting forward market prices available from exchange trading.

Credit Risk: The CTA is exposed to credit risk in the amount of its fair value. As of December 31, 2007, the swap counterparty's long-term deposit ratings were Aa1 and Aa2 per Moody's Investors Service and AA and AA- by Standard & Poor's. To mitigate the potential for credit risk, if the counterparty's credit quality falls below Aa2/AA, the fair value of the swap will be fully collateralized by the counterparty with cash, U.S. Treasury, or U.S. Agency securities. Collateral is posted with a third-party custodian.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Litigation: In April 2003, the CTA and certain managers were named as co-defendants, along with union trustees of the Retirement Allowance Committee, the governing board of the Retirement Plan for CTA Employees, in a suit alleging that the Committee trustees breached their fiduciary duties by approving payment from Plan assets to reimburse the CTA for actual healthcare costs of retirees. The combined amount currently alleged totals over $60 million. The Illinois Appellate Court, in September 2007, upheld the trial court's judgment in favor of CTA and denied plaintiffs motion for reconsideration in March of 2008. Plaintiffs may petition for review by the Illinois Supreme Court. Based upon its own investigation, management believes that there has been no illegality, and that payments were properly made. Accordingly, no liability has been recorded in the financial statements as of December 31, 2007.

(Continued)

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

The CTA has been named as a defendant in various other 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.

Defeased Debt: On May 1, 1998, the CTA defeased the capital lease agreement with the Public Building Commission of Chicago (the PBC) for the 901 W. Division facility. The CTA placed approximately $13,600,000 into an irrevocable trust with a third party in order to meet all of its payment obligations throughout the term of the lease. The outstanding balance of the defeased debt was $725,000 as of December 31, 2007.

On October 26, 2006, the PBC issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of $91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The outstanding balance of the defeased debt was $106,870,000 as of December 31, 2007.

Operating Leases: As of December 31, 2007, future minimum lease payments for operating leases, in the aggregate, are as follows (in thousands of dollars):

2008	$ 323,244
2009	332,941
2010	342,930
2011	353,217
2012	241,978
Total minimum lease payments	$ 1,594,310

NOTE 15 – SUBSEQUENT EVENTS

New Legislation: On January 18, 2008, Public Act 95-708 became law. As a result, the RTA Act was amended to (1) authorize additional funds to be raised, primarily from the RTA region and (2) to enhance the RTA's responsibilities and accountability with respect to regional planning, fiscal oversight, and fare and service coordination.

NOTE 15 – SUBSEQUENT EVENTS (Continued)

This legislation also includes provisions to stabilize the long-term financial health of the CTA pension and retiree healthcare system. The legislation requires that the funding for the pension and retiree healthcare are separated, employee and employer contributions are increased, benefits are adjusted, governance is strengthened, bonds are issued and ongoing financial oversight by the Illinois Auditor General is established. The Chicago Transit Board has not yet approved the issuance of these bonds, however the CTA is preparing for this issuance predicated on the assumption that the bonds will be repaid with the proceeds of the additional funds provided to the CTA from the legislation.

Please refer to the Management's Discussion and Analysis section for further information regarding Public Act 95-708.

Hybrid Bus Lease: On February 29, 2008, CTA finalized an agreement to lease 150 New Flyer articulated hybrid buses. Delivery of the new buses is expected to occur between Fall 2008 and Spring 2009. The terms of the agreement allow CTA to lease the buses for 12 years and retain ownership at the conclusion of the lease. The lease cost will be approximately $13.4 million per year with a total principal amount of $120,522,624. Lease payments are due every June 1 and December 1 of each year, beginning on December 1, 2008.

Capital Grant Receipts Revenue Bonds, Series 2008: On March 12, 2008, the Chicago Transit Board approved the issuance of $250 million in Capital Grant Receipt Revenue Bonds to accelerate funding of capital improvement projects including the purchase of buses and rail cars, and slow zone elimination. The Board's approval means the CTA will issue up to $250 million in tax-exempt Capital Grant Receipts Revenue Bonds backed by the pledge of Federal Transit Administration Section 5307 Urbanized Area Formula Program and 5309 Fixed Guideway Modernization Program Funds.

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Pension
Schedules of Funding Progress (Unaudited)
December 31, 2007
(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan – Pension:						
1/1/2007	$ 1,007,305	$ 2,466,106	$ 1,458,801	40.8%	$ 562,567	259.3%
1/1/2006	1,144,669	2,354,125	1,209,456	48.6	547,532	220.9
1/1/2005	1,313,087	2,291,162	978,075	57.3	544,442	179.6
1/1/2004	1,491,574	2,189,666	698,092	68.1	486,626	143.5
1/1/2003	1,671,055	2,085,724	414,669	80.1	480,740	86.3
1/1/2002	1,688,873	2,044,330	355,457	82.6	459,343	77.4
1/1/2001	1,634,254	2,058,999	424,745	79.4	431,703	98.4
1/1/2000	1,533,217	1,871,391	338,174	81.9	424,518	79.7
Open Supplemental Plan:						
1/1/2008	$ 19,457	$ 15,974	$ (3,483)	121.8%	$ 13,551	-25.7%
1/1/2007	18,937	15,503	(3,434)	122.2	14,840	-23.1
1/1/2006	17,001	10,064	(6,937)	168.9	14,871	-46.6
1/1/2005	*	*	*	*	*	*
1/1/2004	*	*	*	*	*	*
1/1/2003	*	*	*	*	*	*
1/1/2002	*	*	*	*	*	*
1/1/2001	*	*	*	*	*	*
Closed Supplemental Plan:						
1/1/2008	$ -	$ 32,887	$ 32,887	-%	$ -	-%
1/1/2007	-	33,104	33,104	-	-	-
1/1/2006	-	34,835	34,835	-	-	-
1/1/2005	408	45,959	45,551	0.9	15,953	285.5
1/1/2004	301	46,820	46,519	0.6	17,590	264.5
1/1/2003	265	48,372	48,107	0.5	18,685	257.5
1/1/2002	204	47,762	47,558	0.4	17,502	271.7
1/1/2001	253	41,927	41,674	0.6	15,240	273.5
Board Supplemental Plan:						
1/1/2008	$ 56	$ 3,193	$ 3,137	1.8%	$ 200	1568.5%
1/1/2007	50	3,312	3,262	1.5	200	1631.0
1/1/2006	47	3,270	3,223	1.4	175	1841.7
1/1/2005	42	3,001	2,959	1.4	175	1690.9
1/1/2004	55	2,579	2,524	2.1	175	1442.3
1/1/2003	55	2,369	2,314	2.3	200	1157.0
1/1/2002	56	2,127	2,071	2.6	200	1035.5
1/1/2001	50	1,803	1,753	2.8	162	1082.1

*During the year ended December 31, 2005, the CTA established a qualified trust for members of the supplement retirement plan retiring after March 2005 (Open Supplemental Retirement Plan). With the establishment of the trust, the old supplemental retirement plan was effectively closed and subsequently only includes employees who retired prior to March 2005.

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Other Post Employment Healthcare
Schedules of Funding Progress (Unaudited)
December 31, 2007
(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan – Healthcare:						
1/1/2007	$ 58,856	$ 1,765,884	$ 1,707,028	3.3%	$ 562,567	303.4%
1/1/2006	54,386	1,129,278	1,074,892	4.8	547,532	196.3
1/1/2005	69,177	1,219,457	1,150,280	5.7	544,442	211.3
1/1/2004	89,472	1,068,961	979,489	8.4	486,626	201.3
1/1/2003	55,882	940,873	884,991	5.9	480,740	184.1
1/1/2002	175,854	767,864	592,010	22.9	459,343	128.9
1/1/2001	193,841	299,857	106,016	64.6	431,703	24.6
1/1/2000	188,998	284,888	95,890	66.3	424,518	22.6
Supplemental Plan - Healthcare:						
1/1/2008	$ -	$ 6,287	$ 6,287	0.0%	$ 2,771	226.9%
1/1/2007	-	6,796	6,796	—	3,332	204.0

CHICAGO TRANSIT AUTHORITY
Employees' Plan
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2007
(In thousands of dollars)

Employees' Plan – Pension

Year ended	Annual required contribution	Percentage contributed
12/31/07	$ 185,944	13.5%
12/31/06	153,204	15.6
12/31/05	133,816	14.8
12/31/04	104,881	19.2
12/31/03	64,627	30.0
12/31/02	33,973	57.5
12/31/01	58,317	41.3
12/31/00	47,650	47.8

CHICAGO TRANSIT AUTHORITY
Other Post Employment Healthcare
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2007
(In thousands of dollars)

Employees' Plan – Healthcare

Year ended	Annual required contribution	Percentage contributed
12/31/07	$ 159,021	5.5%
12/31/06	119,568	9.8
12/31/05	128,653	8.3
12/31/04	111,659	9.3
12/31/03	97,936	10.1
12/31/02	41,841	22.0
12/31/01	11,488	27.3
12/31/00	10,312	29.7

Supplemental Plans - Healthcare

Year ended	Annual required contribution	Percentage contributed
12/31/07	$ 556	60.2%

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2007
(In thousands of dollars)

Open Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/07	$ 200	0.0%
12/31/06	-	N/A
12/31/05	1,545	1,016.5
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*
12/31/01	*	*

Closed Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/07	$ 3,450	101.6%
12/31/06	3,474	99.8
12/31/05	2,439	144.4
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*
12/31/01	*	*

Board Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/07	$ 288	98.8%
12/31/06	275	106.0
12/31/05	261	109.7
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*
12/31/01	*	*

Total Supplemental Plans

Year ended	Annual required contribution	Percentage contributed
12/31/05	$ 4,245	459.7%
12/31/04	4,368	84.0
12/31/03	4,690	65.3
12/31/02	4,543	108.6
12/31/01	3,817	96.0

*Prior to 2005, all supplemental plans were combined for reporting purposes.

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2007
(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 850,332	$ 818,724	$ 784,841	$ 33,883
Materials and supplies	77,894	77,894	84,178	(6,284)
Fuel	61,233	61,233	71,181	(9,948)
Electric power	28,057	28,057	28,141	(84)
Purchase of security services	35,334	35,334	31,363	3,971
Purchase of paratransit services	-	-	-	-
Other	55,301	54,751	69,465	(14,714)
Provision for injuries and damages	25,000	25,000	25,000	-
Total operating expenses	1,133,151	1,100,993	1,094,169	6,824
System-generated revenues:				
Fares and passes	468,334	468,334	457,300	(11,034)
Reduced-fare subsidies	32,000	32,000	33,308	1,308
Advertising and concessions	24,990	24,990	23,164	(1,826)
Investment income	12,120	12,120	10,495	(1,625)
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	10,250	10,300	16,653	6,353
Total system-generated revenues	552,694	552,744	545,920	(6,824)
Operating expenses in excess of system-generated revenues	580,457	548,249	548,249	-
Public funding from the RTA:				
Operating assistance	580,457	548,249	548,249	-
Change in net assets – budgetary basis	$ -	$ -	-	$ -
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(387,738)	
Pension expense in excess of pension contributions			(306,406)	
Supplemental Retirement			49	
Incentive Retirement			507	
Workers Compensation			(21,599)	
Provision for injury and damage claims			8,776	
Revenue from leasing transactions			4,262	
Interest revenue on bond transactions			5,712	
Interest expense on bond transactions			(15,718)	
Interest income from sale/leaseback			120,795	
Interest expense from sale/leaseback			(115,819)	
Capital contributions			375,914	
Change in net assets – GAAP basis			$ (331,265)	
CTA recovery ratio:				
Total operating expenses			$ 1,094,169	
Less mandated security costs			(31,363)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 1,084,806	
Total system-generated revenues			$ 545,920	
Plus FTA funds			8,000	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 575,920	
Recovery ratio (A/B)			53.09%	

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2006
(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 748,922	$ 748,922	$ 760,751	$ (11,829)
Materials and supplies	67,088	67,088	83,150	(16,062)
Fuel	48,000	48,000	57,470	(9,470)
Electric power	24,526	24,526	22,268	2,258
Purchase of security services	35,335	35,335	30,831	4,504
Purchase of paratransit services	29,582	29,582	28,415	1,167
Other	50,232	50,232	48,288	1,944
Provision for injuries and damages	33,000	33,000	45,266	(12,266)
Total operating expenses	1,036,685	1,036,685	1,076,439	(39,754)
System-generated revenues:				
Fares and passes	426,522	426,522	462,218	35,696
Reduced-fare subsidies	30,590	30,590	29,604	(986)
Advertising and concessions	24,800	24,800	24,402	(398)
Investment income	4,944	4,944	11,608	6,664
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	20,773	20,773	19,574	(1,199)
Total system-generated revenues	512,629	512,629	552,406	39,777
Operating expenses in excess of system-generated revenues	524,056	524,056	524,033	23
Public funding from the RTA:				
Operating assistance	524,056	524,056	524,056	-
Change in net assets – budgetary basis	$ -	$ -	23	$ 23
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(376,910)	
Pension expense in excess of pension contributions			(286,694)	
Provision for injury and damage claims			19,000	
Revenue from leasing transactions			4,262	
Interest revenue on bond transactions			24,471	
Interest expense on bond transactions			(14,557)	
Interest income from sale/leaseback			118,559	
Interest expense from sale/leaseback			(113,753)	
Capital contributions			522,040	
Change in net assets – GAAP basis			$ (103,559)	
CTA recovery ratio:				
Total operating expenses			$ 1,076,439	
Less mandated security costs			(30,831)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 1,067,608	
Total system-generated revenues			$ 552,406	
Plus FTA funds			8,000	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 582,406	
Recovery ratio (A/B)			54.55%	