METROPOLITAN PIER AND EXPOSITION AUTHORITY

Basic Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

METROPOLITAN PIER AND EXPOSITION AUTHORITY

Table of Contents

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
Metropolitan Pier and Exposition Authority:

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Metropolitan Pier and Exposition Authority (the Authority) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Metropolitan Pier and Exposition Authority Retirement Plan (the Plan), which represents 100% of the assets and additions of the fiduciary activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Plan, is based solely on the reports of the other auditors.

We conducted our audits 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. The financial statements of the Plan, audited by other auditors, were not audited in accordance with *Government Auditing Standards*. 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 Authority'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 audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Metropolitan Pier and Exposition Authority as of June 30, 2012 and 2011, 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 our report dated November 12, 2012 on our consideration of the Authority'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 audits.

U.S. generally accepted accounting principles require that the management's discussion and analysis and schedule of funding progress on pages 3 – 8 and 44, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Chicago, Illinois
November 12, 2012

Management's Discussion and Analysis

As management of the Metropolitan Pier and Exposition Authority (the Authority or MPEA), we offer readers of the financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the Authority's financial statements which follow this section.

Financial Highlights

Fiscal year 2012 was a time of significant restructuring of the Authority's operations, accomplishing the mandates of the 2010 Reform Legislation. Effective July 1, 2011, the Authority entered into a long-term lease agreement with a not-for-profit entity, Navy Pier, Inc. (NPI), to manage, operate, and develop Navy Pier.

Effective August 1, 2011, a private management company, SMG, took over the operation of McCormick Place, taking responsibility for the operation of MPEA's core convention business. Effective October 1, 2011, SAVOR assumed responsibility of the McCormick Place food services operation. As a result, MPEA's role has changed essentially from that of a day-to-day operator of these facilities to that of asset manager and shared business services provider.

Work on the expansion of MPEA's hotel property, with the addition of a second tower, continued throughout fiscal year 2012. Renovation of the existing hotel tower will take place during fiscal year 2013 with completion of the second tower anticipated in June 2013.

Fiscal Year 2012 Compared to Fiscal Year 2011

Total assets at year-end 2012 of $2.6 billion were less than liabilities of $3.5 billion for a net deficit at June 30, 2012 of $999 million.

Total assets decreased from fiscal year 2011 to fiscal year 2012 by $126.7 million primarily due to the decrease in investment balances. Decreases in investment balances of $123.0 million were attributable to investment sales and maturities primarily used to fund a Capital Improvements Account for NPI in the amount of $60 million and to fund $41.3 million in capital acquisitions related to the hotel addition and other capital projects. The increase in total net deficit for fiscal year 2012 was $166.1 million (net loss) which included an operating loss of $115.8 million and net nonoperating expenses of $50.3 million.

The Authority's net deficit of $999.1 million reflects its investment in capital assets (land, buildings, etc.,) of $1.1 billion less the related debt used to acquire those assets. The Authority uses its capital assets to fulfill its mission of promoting conventions and tourism in the City of Chicago and the State of Illinois (the State). The resources to repay the debt are derived from tax collections and other grants from the State, not the operating revenue of the Authority.

A portion of the Authority's current assets ($52.0 million in Authority taxes receivable) represents resources that are subject to restrictions on how they may be used. Such assets are required to be used for debt service.

An allocated portion of the State of Illinois sales tax is available to service the Authority's Expansion Project Bonds in the event of shortfalls in Authority taxes. Prior to the debt restructuring in October 2010, collections of Authority taxes were inadequate to fund annual debt service transfers as required thus requiring additional deposits by the State funded with State sales tax revenues. Due to this shortfall, the Authority had a

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nonreimbursed draw on the State sales tax at June 30, 2010 of $57.2 million, net of year-end cash balances in the Authority Tax Fund.

The balance due to the State of Illinois for nonreimbursed draws on the state sales tax was $57.2 million at June 30, 2011 and remained at $57.2 million at June 30, 2012. The repayment of this amount due to the State has been deferred until after 2014.

The Authority completed the restructuring of its outstanding debt in October 2010 and, as a result, expects that it will not be necessary to draw on the state sales taxes to cover debt service in future years.

In July 2012, MPEA completed a $855 million restructuring of its outstanding debt, including $97 million Series 2012A new money bonds, $746 million Series 2012B refunding bonds, and $12 million Series 2012C taxable refunding bonds. Proceeds of the Series 2012A bonds primarily will be used to improve and maintain the Authority's facilities.

Operating revenues in fiscal year 2012 of $104.7 million decreased by $67.1 million compared to fiscal year 2011 due to lower exhibition facilities revenue of $32.6 million, retail of $12.8 million, parking of $9.4 million, entertainment of $9.3 million and guest services of $5.4 million. Hotel revenues were higher as compared to fiscal year 2011 by $3.2 million resulting from a 3% increase in the occupancy rate and a higher average daily room rate.

Operating expenses in fiscal year 2012 of $220.5 million decreased by $69.1 million as compared to fiscal year 2011 due to lower salaries, wages, and benefits of $41.7 million, supplies, repairs and maintenance of $12.7 million, general and administrative of $8.7 million, utilities of $3.3 million, depreciation of $1.7 million, and outsourced operations of $1.1 million.

In 2008, the Authority began classifying certain expenses incurred under outsourced hotel and parking management contracts to a separate line on the statement of revenues, expenses, and changes in net assets entitled "Outsourced operations." Such expenses decreased in fiscal year 2012, as compared to 2011, due to lower parking expenses related to lower parking revenues.

The operating loss in fiscal year 2012 of $115.8 million decreased by $2.0 million as compared to an operating loss of $117.8 million in fiscal year 2011.

Nonoperating revenues in fiscal year 2012 of $152.9 million decreased by $0.7 million as compared to fiscal year 2011 due to a decrease in State grants of $4.7 million offset by an increase in Authority taxes of $4.0 million.

Nonoperating expenses in fiscal year 2012 of $203.2 million increased by $31.0 million as compared to 2011 primarily due to an increase of $29.4 million in interest and amortization expenses. This increase is a direct result of the restructuring of the Authority's outstanding debt in October 2010. The interest paid and the accreted value on the 2010 bonds were $66.7 million in 2012 as compared to $33.7 million in 2011.

The statement of cash flows identifies sources and uses of cash activity for the fiscal year. Cash and cash equivalents increased by $12.5 million during fiscal year 2012. This increase was primarily due to cash provided by investing activities of $123.4 million due to investment sales and maturities. This increase was offset by an $82.1 million decrease in cash used in capital and related financing activities primarily due to the establishment of a Capital Improvements Account for NPI in the amount of $60.0 million and payments for capital additions of

$41.3 million, primarily to finance the additional hotel tower. The increase resulting from investing activities was also offset by a decrease in cash from operating activities of $28.8 million.

Fiscal Year 2011 Compared to Fiscal Year 2010

Total assets at year-end 2011 of $2.7 billion were less than liabilities of $3.5 billion for a net deficit at June 30, 2011 of $833 million.

Total assets decreased from fiscal year 2010 to fiscal year 2011 by $180.1 million primarily due to the increase in investment balances. Increases in investment balances of $182.3 million were primarily attributable to $200 million of new capital raised primarily to expand MPEA's hotel property. The increase in total net deficit for fiscal year 2011 was $136.4 million (net loss) which included an operating loss of $117.8 million and net nonoperating expenses of $18.6 million.

A large portion of the Authority's net deficit, $969.9 million, reflects its investment in capital assets (land, buildings, etc.) less the related debt used to acquire those assets. The Authority uses its capital assets to fulfill its mission of promoting conventions and tourism in the City of Chicago and the State of Illinois. The resources to repay the debt are derived from tax collections and other grants from the state, not the operating revenue of the Authority.

A portion of the Authority's current assets ($81.8 million in Authority taxes receivable) represents resources that are subject to restrictions on how they may be used. Such assets are required to be used for debt service.

An allocated portion of the State of Illinois sales tax is available to service the Authority's Expansion Project Bonds in the event of shortfalls in Authority taxes. Prior to the debt restructuring in October 2010, collections of Authority taxes were inadequate to fund annual debt service transfers as required thus requiring additional deposits by the State funded with State sales tax revenues. Due to this shortfall, the Authority had a nonreimbursed draw on the state sales tax at June 30, 2010 of $57.2 million, net of year-end cash balances in the Authority Tax Fund.

The balance due to the State of Illinois for nonreimbursed draws on the state sales tax remained at $57.2 million at June 30, 2011. The repayment of this amount due to the State has been deferred until after 2014.

The Authority completed the restructuring of its outstanding debt in October 2010 and, as a result, expects that it will not be necessary to draw on the state sales taxes to cover debt service in future years.

Operating revenues in fiscal year 2011 of $171.8 million increased by $1.5 million compared to fiscal year 2010 due to lower exhibition facilities revenue of $4.6 million, which was more than offset by higher hotel revenue of $2.9 million, entertainment of $1.7 million, heating and cooling of $1.3 million, and retail of $1.1 million. Hotel revenues were higher as compared to fiscal year 2010 resulting from a 3% increase in the occupancy rate and a higher average daily room rate.

Operating expenses in fiscal year 2011 of $289.6 million increased by $0.3 million as compared to fiscal year 2010. Lower salaries, wages and benefits of $3.7 million and depreciation of $4.7 million were offset by higher supplies, repairs and maintenance of $3.7 million and outsourced operations of $3.3 million.

In 2008, the Authority began classifying certain expenses incurred under outsourced hotel and parking management contracts to a separate line on the statement of revenues, expenses, and changes in net assets

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entitled "Outsourced operations." Such expenses increased in fiscal year 2011, as compared to 2010, due to higher hotel expenses related to higher revenues.

The operating loss in fiscal year 2011 of $117.8 million decreased by $1.2 million as compared to an operating loss of $119.0 million in fiscal year 2010.

Nonoperating revenues in fiscal year 2011 of $153.6 million remained flat as compared to fiscal year 2010. Investment income in fiscal year 2011 increased by $0.1 million due to a slight improvement in interest rates as compare to fiscal year 2010.

Nonoperating expenses in fiscal year 2011 of $172.2 million decreased by $2.4 million as compared to 2010 partially due to a decrease of $1.2 million in intergovernmental payments. Additionally, interest and amortization expense decreased by $1.4 million.

The statement of cash flows identifies sources and uses of cash activity for the fiscal year. Cash and cash equivalents increased by $20.4 million during fiscal year 2011. This increase was primarily due to capital and related financing activities which provided a cash increase of $231.4 million due to the additional capital raised by MPEA. This increase was offset by a $181.9 million decrease in cash provided by investing activities and a decrease in cash from operating activities of $29.1 million.

Basic Financial Statements

The Authority's basic financial statements are prepared using proprietary fund (enterprise fund) accounting. The Authority is operated under one enterprise fund. Under this method of accounting, an economic resources measurement focus and the accrual basis of accounting is used. Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include statements of net assets; statements of revenues, expenses, and changes in net assets; statements of cash flows; statements of fiduciary net assets; and statements of changes in fiduciary net assets. Notes to the financial statements are also included.

The statement of net assets presents information on the assets and liabilities of the Authority. The excess of liabilities over assets is reported as the Authority's total net deficit.

The statement of revenues, expenses, and changes in net assets reports revenues and expenses of the Authority for the fiscal year. The difference between revenues and expenses (net income or loss) is reported as the change in net deficit for the fiscal year. The change in net deficit is added to the beginning-of-year net deficit to arrive at the net deficit at the end of the current fiscal year.

The statement of cash flows reports activities in cash and cash equivalents for the fiscal year resulting from operating activities, capital and related financing activities, and investing activities. Net cash flows from these activities account for the change in the Authority's cash and cash equivalents balance during the year.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the financial statements. The notes present information concerning the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

The Authority's staff prepared the financial statements from the detailed books and records of the Authority. These financial statements were audited as part of the Authority's annual independent external audit process.

Included in the Authority's reporting entity is the Metropolitan Pier and Exposition Authority Retirement Plan (the Plan), a single-employer defined benefit plan established under the authority of the Board of Directors of the Authority. The Plan is reported as a Pension Trust Fund in these financial statements. Separate financial statements and management's discussion and analysis for the Plan can be obtained from the administrative offices located at 301 East Cermak Road, Chicago, Illinois 60616.

Financial Information (Amounts in Thousands)

The following schedule presents a summary of business-type activities assets, liabilities and net deficits for the fiscal years ended June 30, 2012, 2011, and 2010:

		2012	2011	2010
Current and other assets	$	468,189	545,288	276,916
Capital assets		2,079,705	2,129,284	2,217,529
Total assets	$	2,547,894	2,674,572	2,494,445
Current liabilities	$	98,834	117,150	136,411
Noncurrent liabilities		3,448,147	3,390,364	3,054,531
Total liabilities		3,546,981	3,507,514	3,190,942
Net assets (deficit):				
Invested in capital assets – net of related debt		(1,126,075)	(969,918)	(615,383)
Restricted for debt service		24,671	85,880	5,795
Unrestricted		102,317	51,096	(86,909)
Total net deficit		(999,087)	(832,942)	(696,497)
Total liabilities and net deficit	$	2,547,894	2,674,572	2,494,445

The following schedule presents a summary of business-type activities revenues for the fiscal years ended June 30, 2012, 2011, and 2010:

		2012	2011	2010
Operating revenues	$	104,702	171,805	170,293
Nonoperating revenues:				
State grants		37,132	41,844	31,411
Investment income		413	345	225
Authority taxes		115,388	111,365	121,790
Total nonoperating revenues		152,933	153,554	153,426
Total revenues	$	257,635	325,359	323,719

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The following schedule presents a summary of business-type activities expenses for the fiscal years ended June 30, 2012, 2011, and 2010:

	2012	2011	2010
Operating expenses:			
Salaries, wages and benefits	$ 41,244	82,976	86,709
Supplies, repairs and maintenance	21,278	33,961	30,189
Outsourced operations	45,544	46,607	43,285
Depreciation	90,521	92,171	96,864
Utilities	14,020	17,295	16,264
General and administrative	7,933	16,601	16,004
Gain on disposal of fixed assets	—	—	(24)
Total operating expenses	220,540	289,611	289,291
Nonoperating expenses:			
Intergovernmental payments	—	1,120	2,341
Interest and amortization expense and miscellaneous	203,240	171,073	172,231
Total nonoperating expenses	203,240	172,193	174,572
Total expenses	$ 423,780	461,804	463,863

Capital Acquisitions

During fiscal years 2012 and 2011, the Authority spent $30.5 million and $5.3 million, respectively, for capital expenditures, primarily related to the construction of the second hotel tower.

A summary of changes in fixed assets is included in note 3 to the basic financial statements.

Long-Term Debt

In order to allow the Authority to expand and maintain its facilities, the Authority was granted taxing authority to fund annual debt service payments on its bonds (the MPEA Tax). The four components of the MPEA Tax are: a 1% tax on restaurant sales in a downtown Chicago district, a 2.5% tax on hotel and motel rooms in Chicago, a 6% tax on auto rentals in Cook County, and an Airport Departure tax at O'Hare and Midway airports. Outstanding Expansion debt totaled $3.2 billion as of June 30, 2012 and $3.1 billion as of June 30, 2011. Original issue yields on the Authority's Expansion bonds ranged from 3.7% to 6.8% and 2.4% to 6.8% during fiscal years 2012 and 2011, respectively.

The Authority also had $14.0 million and $18.0 million of outstanding debt serviced by dedicated state sales taxes as of June 30, 2012 and 2011, respectively. Original issue yields on the Dedicated State Tax bonds was 5.375% in fiscal year 2012 and ranged from 4.0% to 6.8% during fiscal year 2011.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Executive Officer at 301 East Cermak Road, Chicago, Illinois 60616.

METROPOLITAN PIER AND EXPOSITION AUTHORITY

Business-Type Activities

Statements of Net Assets

June 30, 2012 and 2011

(Dollars in thousands)

Assets		2012	2011
Current assets:			
Cash and cash equivalents – unrestricted	$	32,721	31,502
Cash and cash equivalents – restricted		11,738	474
Investments – unrestricted		1,742	1,741
Accounts receivable – net of allowance for doubtful accounts of $336 and $419 at June 30, 2012 and 2011, respectively		10,811	11,127
Prepaid expenses		2,823	1,987
Deposit for NPI		7,821	—
Authority taxes receivable – restricted		52,025	81,756
Total current assets		119,681	128,587
Noncurrent assets:			
Deposit for NPI		51,353	—
Investments – restricted		237,823	360,838
Deferred bond issuance costs – net of accumulated amortization of $22,418 and $23,883 at June 30, 2012 and 2011, respectively		32,015	33,480
Net pension asset		22,317	17,383
Note receivable from NPI		5,000	5,000
Capital assets:			
Land, buildings, and equipment		3,076,444	3,042,509
Accumulated depreciation		(996,739)	(913,225)
Capital assets – net		2,079,705	2,129,284
Total noncurrent assets		2,428,213	2,545,985
Total assets	$	2,547,894	2,674,572

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METROPOLITAN PIER AND EXPOSITION AUTHORITY

Business-Type Activities

Statements of Net Assets

June 30, 2012 and 2011

(Dollars in thousands)

Liabilities and Net Deficit		**2012**	**2011**
Current liabilities:			
Accounts payable and accrued expenses	$	30,987	27,980
Advance deposits		5,709	6,678
Retainage payable		1,953	88
Workers' compensation		4,552	3,200
Accrued interest		3,924	3,991
Current portion of bonds payable, net premium and deferred loss on refunding		51,646	75,123
Other current liabilities		63	90
Total current liabilities		98,834	117,150
Noncurrent liabilities:			
Workers' compensation		5,836	9,097
Amount due to the State of Illinois		57,219	57,219
Bonds payable		3,156,281	3,097,851
Net premium on bonds payable		319,076	320,033
Deferred loss on refunding		(90,265)	(93,836)
Total noncurrent liabilities		3,448,147	3,390,364
Total liabilities		3,546,981	3,507,514
Net assets (deficit):			
Invested in capital assets, net of related debt		(1,126,075)	(969,918)
Restricted for debt service		24,671	85,880
Unrestricted		102,317	51,096
Total net deficit		(999,087)	(832,942)
Total liabilities and net deficit	$	2,547,894	2,674,572

See accompanying notes to basic financial statements.

METROPOLITAN PIER AND EXPOSITION AUTHORITY

Business-Type Activities

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Operating revenues:			
Use of exhibition facilities	$	31,008	63,570
Hospitality revenues		37,348	34,099
Guest services		18,801	24,164
Parking		8,862	18,236
Retail		—	12,837
Entertainment		—	9,346
Heating and cooling revenues		6,413	6,190
Other		2,270	3,363
Total operating revenues		104,702	171,805
Operating expenses:			
Salaries, wages, and benefits		41,244	82,976
Supplies, repairs, and maintenance		21,278	33,961
Outsourced operations:			
Hotel and other		26,120	24,497
Parking		5,096	7,344
Guest service		14,328	14,766
Subtotal – outsourced operations		45,544	46,607
Depreciation		90,521	92,171
Utilities		14,020	17,295
General and administrative		7,933	16,601
Total operating expenses		220,540	289,611
Operating loss		(115,838)	(117,806)
Nonoperating revenues (expenses):			
State grants		37,132	41,844
Investment income		413	345
Authority taxes		115,388	111,365
Intergovernmental payments		—	(1,120)
Contribution of cash to NPI		(826)	—
Interest and amortization expense		(200,175)	(170,824)
Contribution of capital assets to NPI		(2,226)	—
Miscellaneous, net		(13)	(249)
Total nonoperating revenues (expenses), net		(50,307)	(18,639)
Change in net deficit		(166,145)	(136,445)
Net deficit – beginning of year		(832,942)	(696,497)
Net deficit – end of year	$	(999,087)	(832,942)

See accompanying notes to basic financial statements.

METROPOLITAN PIER AND EXPOSITION AUTHORITY

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Cash flows from operating activities:			
Cash received from customers	$	104,049	170,867
Cash payments for goods and services		(84,766)	(109,015)
Cash payments to or for employees		(48,087)	(90,930)
Net cash used in operating activities		(28,804)	(29,078)
Cash flows from capital and related financing activities:			
Authority tax receipts		145,119	50,970
Grant receipts		37,132	41,844
Bond proceeds		—	1,114,191
Payments for bond refundings		—	(853,386)
Payment for bond issuance costs		—	(10,178)
Bond principal repayments		(68,285)	(22,160)
Intergovernmental payments		—	(1,120)
Interest paid		(94,808)	(79,573)
Loan to NPI		—	(5,000)
Cash payment to NPI		—	(220)
Deposit for NPI		(59,174)	—
Contribution expense – NPI		(826)	—
Payments for capital acquisitions		(41,299)	(3,957)
Net cash provided by (used in) capital and related financing activities		(82,141)	231,411
Cash flows from investing activities:			
Investment purchases		—	(777,104)
Investment sales, maturities, and other receipts		123,015	594,847
Receipt of interest and dividends		413	345
Net cash provided by (used in) investing activities		123,428	(181,912)
Net increase in cash and cash equivalents		12,483	20,421
Cash and cash equivalents – beginning of year		31,976	11,555
Cash and cash equivalents – end of year	$	44,459	31,976
Reconciliation of cash and cash equivalents to statements of net assets:			
Cash and cash equivalents – unrestricted	$	32,721	31,502
Cash and cash equivalents – restricted		11,738	474
	$	44,459	31,976

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METROPOLITAN PIER AND EXPOSITION AUTHORITY

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(115,838)	(117,806)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation		90,521	92,171
Changes in operating assets and liabilities:			
Accounts receivable		316	1,689
Prepaid expenses		(836)	3,972
Accounts payable, accrued expenses, and other current liabilities		4,845	1,477
Net pension asset		(4,934)	(9,318)
Advance deposits		(969)	(2,627)
Workers' compensation		(1,909)	1,364
Total adjustments		87,034	88,728
Net cash used in operating activities	$	(28,804)	(29,078)

See accompanying notes to basic financial statements.

METROPOLITAN PIER AND EXPOSITION AUTHORITY

Fiduciary Activities

Statements of Fiduciary Net Assets –
Metropolitan Pier and Exposition Authority Retirement Plan

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Assets:			
Investments, at fair value:			
Equity mutual funds	$	17,600	26,481
Common/collective trusts		18,115	8,693
Equity separate account		10,082	9,897
Fixed-income mutual fund		13,645	12,178
Fixed-income separate account		13,230	11,858
Money market account		110	109
Total investments, at fair value		72,782	69,216
Net assets held in trust for benefits (an unaudited schedule of funding progress is presented on page 44)	$	72,782	69,216

See accompanying notes to basic financial statements.

METROPOLITAN PIER AND EXPOSITION AUTHORITY

Fiduciary Activities

Statements of Changes in Fiduciary Net Assets –
Metropolitan Pier and Exposition Authority Retirement Plan

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Additions:			
Investment income:			
Net appreciation (depreciation) in fair value:			
Equity mutual funds	$	(1,342)	8,124
Common/collective trusts		415	815
Equity separate account		140	1,080
Fixed-income mutual fund		370	273
Fixed-income separate account		497	(94)
Interest income		1	—
Dividend income		1,502	1,340
Net investment income		1,583	11,538
Employer contributions		6,319	12,574
Total additions		7,902	24,112
Deductions:			
Benefits paid to participants		4,019	3,376
Administrative expenses		317	311
Total deductions		4,336	3,687
Increase in net assets held in trust for benefits		3,566	20,425
Net assets held in trust for benefits:			
Beginning of year		69,216	48,791
End of year	$	72,782	69,216

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

The Illinois General Assembly created the Metropolitan Fair and Exposition Authority in 1955 and renamed it as the Metropolitan Pier and Exposition Authority (the Authority) in 1989 when it was established as a municipal corporation pursuant to the Metropolitan Pier and Exposition Authority Act. The purpose of the Authority is to promote, operate, and maintain fairs, expositions, meetings, and conventions in the Chicago metropolitan area and, in connection therewith, to construct, equip, and maintain buildings for such purposes. In 1998, the Authority began operations at its 800 room convention center hotel, the Hyatt Regency McCormick Place (the Hotel) and hired Hyatt Hotels Corporation to manage the Hotel. The Authority is also responsible for the recreational, cultural, and commercial development of Navy Pier.

Effective July 1, 2011, the Authority entered into a long-term lease agreement with a not-for-profit entity, Navy Pier, Inc. (NPI), to manage, operate and develop Navy Pier. Effective August 1, 2011, a private management company, SMG, took over the operation of McCormick Place, taking responsibility for the operation of the Authority's core convention business. Effective October 1, 2011, SAVOR assumed responsibility of the McCormick Place food services operation. To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) 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 Authority has no component units and is not a component unit of any other entity.

The Authority's reporting entity includes the Metropolitan Pier and Exposition Authority Retirement Plan (the Plan), a single-employer defined benefit plan established under the authority of the Board of Directors of the Authority. The Plan is reported as a Pension Trust Fund in these financial statements. Separate financial statements for the Plan can be obtained from the administrative offices located at 301 East Cermak Road, Chicago, Illinois 60616.

(b) Basis of Accounting and Financial Statement Presentation

The basic financial statements provide information about the Authority's business-type and fiduciary (the Plan) activities. Separate statements for each category – business-type and fiduciary – are presented.

Business-Type Activities

The financial statements for the Authority's business-type activities are used to account for the Authority's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned, and expenses (including depreciation and amortization) are recorded when incurred, regardless of the timing of the related cash flows.

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, include grants from federal, state, and local governments. On an accrual basis, revenue from state 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 Authority on a reimbursement basis. Revenue from Authority taxes is recognized during the period when the exchange transaction on which the tax is imposed occurs.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority 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.

Fiduciary Activities

The financial statements for the fiduciary activities are used to account for the assets held by the Authority in trust for the payment of future retirement benefits under the Plan. The assets of the Plan cannot be used to support Authority operations. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the Plan.

(c) 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.

(d) Investments

Investments, including short-term money market investments, are reported at fair value based on quoted market prices. Restricted cash consists of amounts held for the Authority's food service reserve funds pursuant to its agreements with two food service providers, whereby the Authority is required to set aside funds for food service equipment and supplies.

Investments of the fiduciary activities (the Plan) are reported at fair value based on quoted market prices and valuations provided by external investment managers.

(e) Capital Assets

Capital assets are reported at cost. Capital assets are defined as assets which have a useful life of more than one year and a unit cost of more than $10,000. Group asset purchases (such as construction or renovation projects) are capitalized when the cost exceeds $50,000 regardless of the cost of individual items. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity and interest cost associated with significant capital additions. Interest is capitalized on constructed assets. The amount of interest to be capitalized is calculated by multiplying the amount of capital expenditures by the interest rate of the bonds used to fund the capital projects. The amount of interest capitalized for the years ended June 30, 2012 and 2011 is $1.9 million and $0, respectively.

Depreciation of capital assets is computed using the straight-line method assuming the following useful lives:

	Years
Buildings	25 – 40
Building improvements	3 – 25
Furniture and fixtures	7
Machinery and equipment	3 – 15

(f) Amount Due to the State of Illinois

The amount due to the State of Illinois consists of sales taxes borrowed from the State of Illinois for debt service payments made on the Expansion Project Bonds due to shortages in the collection of Authority taxes.

(g) Compensated Absences

Vested or accumulated vacation and compensatory time is recorded as an accrued expense. The Authority's sick leave policy provides for an accumulation of earned sick leave. Sick leave does not vest and the Authority has no obligation for the accumulated sick leave until it is actually taken. Thus, no accrual for sick leave has been made.

(h) Bond Issuance Costs, Bond Premiums, and Deferred Loss on Refunding

Bond issuance costs, bond premiums, and losses on refunding transactions are deferred and amortized using the effective-interest method over the life of the related debt, except in the case of refunding transactions where the amortization period is over the term of the new debt or refunded debt, whichever is shorter.

(i) Net Assets (Deficits)

Net assets (deficits) are categorized as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding debt that is 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 Authority'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."

(j) Authority Tax Revenue

Authority tax revenue consists of Authority taxes collected (restaurant, hotel, car rental, and airport departure) by the City of Chicago, Illinois (the City) and the State of Illinois and held by the State in the Authority Tax Fund as funds available to pay future debt service for the 1992A, 1994, 1996A, 1998, 1999, 2002, and 2010 Expansion Project Bonds. Amounts recognized but not received are reported as restricted Authority taxes receivable, as amounts are to be used to fund debt service for the above noted bonds. The taxes receivable balance is classified as current as it is expected to be received within one year. If the Authority taxes are not sufficient to pay the debt service payments for the Expansion Project Bonds and cash is not available in the Reserve Balance, the Authority is authorized to draw on state sales tax from the State of Illinois, which is repaid when the Authority taxes begin to generate a surplus again.

The Authority considers the Authority taxes to be derived tax revenues as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Accordingly, the Authority recognizes the Authority tax revenue in the period when the exchange transaction on which the tax is imposed occurred.

(k) State Grant Revenue

State grant revenue consists of revenues received from the State of Illinois used for the payment of debt service and maintenance of reserve funds for the 1992, 1995, 1997, and 2002 Dedicated State Tax Revenue Bonds in fiscal year 2011 and for the 2002 Dedicated State Tax Bonds in fiscal year 2012. The funds are derived from sales taxes, hotel taxes and racing taxes (dedicated state taxes) imposed and collected by the State of Illinois.

(Continued)

(l) Classification of Revenue and Expenses

Revenues from space rental, utility services, food and beverage, parking, and other recurring activities are reported as operating revenues in the basic financial statements. Salaries, wages and benefits; supplies, repairs and maintenance; outsourced operations; depreciation; utilities; and other general and administrative expenses related to Authority operations are reported as operating expenses. Transactions that are related to financing, investing, intergovernmental agreements, taxes, and other nonoperating events are reported as nonoperating revenues and/or expenses.

(m) Management's Use of Estimates

The preparation of basic 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 at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(n) New Accounting Pronouncements

November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses service concession arrangements, which are a type of public-private partnership. The Authority will implement this Statement during the fiscal year ending June 30, 2013. The Authority does not expect the implementation of the Statement to have a significant impact on its financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, an amendment of GASB Statements No. 14 and No. 34*. This Statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity display and disclosure requirements. The Authority will implement this Statement during the fiscal year ending June 30, 2013. The Authority does not expect the implementation of the Statement to have a significant impact on its financial statements.

In December 2011, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: FASB Statements and Interpretations; Accounting Principles Board Opinions, or; Accounting Research Bulletins of the AICPA Committee on Accounting Procedure (collectively referred to as the – FASB and AICPA pronouncements). The Authority will implement this Statement during the fiscal year ending June 30, 2013. The Authority does not expect the implementation of the Statement to have a significant impact on its financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Authority will implement this Statement during the fiscal year ending June 30, 2013. The Authority does not expect the implementation of the Statement to have a significant impact on its financial statements.

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Authority will implement this Statement during the fiscal year ending June 30, 2013. The Authority does not have any derivative instruments.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources, or current period outflows and inflows. The Authority will implement this Statement during the fiscal year ending June 30, 2014. The Authority does not expect the implementation of the Statement to have a significant impact on its financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections–2012–an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of previous pronouncements. The Authority will implement this Statement during the fiscal year ending June 30, 2014. The Authority does not expect the implementation of the Statement to have a significant impact on its financial statements.

In July 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The Authority will implement this Statement during the fiscal year ending June 30, 2015. The Authority has not analyzed the potential impact of the Statement on its financial statements.

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(2) Cash and Investments

A summary of cash and investments as of June 30, 2012 and 2011 is as follows (amounts are in thousands):

		2012	2011
Business-type activities:			
Cash and demand deposits	$	44,459	31,975
Certificates of deposit		1,500	1,500
U.S. Treasury securities		—	217,486
U.S. government agency securities		—	19,327
Government money market funds		238,065	124,267
Total business-type activities		284,024	394,555
Fiduciary activities:			
Equity mutual funds		17,600	26,481
Common/collective trusts		18,115	8,693
Equity separate account		10,082	9,897
Fixed-income mutual fund		13,645	12,178
Fixed-income separate account		13,230	11,858
Money market account		110	109
Total fiduciary activities		72,782	69,216
Total cash and investments	$	356,806	463,771

(a) Business-Type Activities

Investment Policy

Authority investments are made in accordance with the Public Funds Investment Act (30 ILCS 235/1) (the Act) and, as required under the Act, the Authority's Investment Policy (the Investment Policy). The Investment Policy does not apply to the Plan, which is directed by the Investment Policy of the Retirement Plan as established by the plan trustees – refer to Section (b).

In accordance with the Act and the Investment Policy, the Authority may invest in the following types of securities:

1. United States Treasury Securities (Bonds, Notes, Certificates of Indebtedness, and Bills). The Authority 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. The Authority may invest in 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. The Authority 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. The Authority 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. The Authority may invest in mutual funds which invest exclusively in United States government obligations and agencies.

6. Discount Obligations. The Authority may invest in short-term discount obligations of the Federal National Mortgage Association.

7. Investment Pool. The Authority may invest in a Public Treasurers’ Investment Pool created under Section 17 of the State Treasurer Act (15 ILCS 505/17).

8. Investment Certificates. The Authority may invest in investment certificates issued by FDIC-insured savings banks or FDIC-insured savings and loan associations.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the Authority’s deposits may not be returned. The Authority’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.

Interest Rate Risk

Interest rate risk is the risk that the fair value of the Authority’s investments will decrease as a result of an increase in interest rates. The Authority’s investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority manages interest rate exposure by matching the maturities of investments with its expected cash flow needs. For investments intended to be used for operations and capital maintenance, the Authority purchases investments so that the maturity dates are in line with anticipated cash flow needs. For investments restricted for capital projects, the Authority invests in maturities that meet the projected draw schedule for the related project.

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As of June 30, 2012, the maturities for the Authority's fixed-income investments are as follows (in thousands of dollars):

			Investment maturities (years)			
		Fair value	**Less than 1**	**1 – 5**	**6 – 10**	**More than 10**
Government money market funds	$	238,065	238,065	—	—	—

As of June 30, 2011, the maturities for the Authority's fixed-income investments are as follows (in thousands of dollars):

			Investment maturities (years)			
		Fair value	**Less than 1**	**1 – 5**	**6 – 10**	**More than 10**
U.S. Treasury securities	$	217,486	217,486	—	—	—
U.S. government agency securities		19,327	19,327	—	—	—
Government money market funds		124,267	124,267	—	—	—
Total	$	361,080	361,080	—	—	—

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in any one single issuer. The Authority's policy does not limit the amounts that it may invest in any one issuer. The Authority is considered to have a concentration of credit risk if its investment in any one single issuer is greater than 5% of the total fixed-income investments. As of June 30, 2011, U.S. government agency securities comprised 5% of the Authority's total enterprise fund investments.

Credit Risk

Credit risk is the risk that the Authority will not recover its investments due to the failure of the counterparty to fulfill its obligation. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the Authority's policy to limit its investments in these investment types to the top two ratings issued by NRSROs. As of June 30, 2012 and 2011, the Authority held no commercial paper. The Authority's investments in money market funds were rated AAA by Standard & Poor's.

Comprising U.S. government agency securities were the following investments, which were rated AAA by Standard & Poor's (in thousands of dollars):

		2012	2011
Freddie Mac (Federal Home Loan Mortgage Corporation)	$	—	19,327

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority 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.

(b) Fiduciary Activities

Investment Policy

The Plan's investments are made in accordance with the Investment Policy of the Plan as established by the Plan Trustees. The Pension Trust Fund investments are invested according to the targeted investment mix in the investment policy of the Plan. These long-term targets seek to achieve the Plan's assumed rate of return in conjunction with the overall asset/liability structure of the Plan.

Interest Rate Risk

Interest rate risk is the risk that the fair value of the Plan's investments will decrease as a result of an increase in interest rates. The Plan's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The fixed-income portfolio has a modified duration of 4.88 years and 4.73 years at June 30, 2012 and June 30, 2011, respectively.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in any one single issuer. The Plan's policy limits investments of any single issuer (except for U.S. government and agency securities) to 5% of the Plan's fixed-income market value. Securities in any one industry may not exceed 25% of the fixed-income portfolio. The Plan is considered to have a concentration of credit risk if its investment in any one single issuer is greater than 5% of the total fixed-income investments. The Plan does not have any concentration of credit risk as of June 30, 2012 and 2011.

Credit Risk

Credit risk is the risk that the Plan will not recover its investments due to the failure of the counterparty to fulfill its obligation. The Plan's policy limits securities falling below a credit rating of BBB from Standard and Poor's and/or Baa from Moody's to 10% of the fixed-income portfolio. The Plan's government money market mutual funds were unrated as of June 30, 2012 and 2011. The ratings of the Authority's investments in the fixed-income separate account are as follows at June 30, 2012 (in thousands of dollars):

Credit ratings		Corporate bonds	Government securities	Municipal obligations	Money market	Total
Aaa/AAA	$	136	—	388	—	524
Aa/AA		533	—	536	—	1,069
A/A		2,304	—	—	—	2,304
Baa/BBB		2,554	—	101	—	2,655
Treasury		—	1,287	—	—	1,287
Agency		—	4,660	—	—	4,660
Not rated		—	—	—	731	731
Total	$	5,527	5,947	1,025	731	13,230

The ratings of the Authority's investments in the fixed-income separate account are as follows at June 30, 2011 (in thousands of dollars):

Credit ratings		Corporate bonds	Government securities	Municipal obligations	Money market	Total
Aaa/AAA	$	255	—	502	—	757
Aa/AA		224	—	380	—	604
A/A		1,548	—	112	—	1,660
Baa/BBB		2,035	—	—	—	2,035
Treasury		—	1,119	—	—	1,119
Agency		—	5,171	—	—	5,171
Not rated		—	—	—	512	512
Total	$	4,062	6,290	994	512	11,858

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its 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.

(3) Capital Assets

Changes in capital assets for the year ended June 30, 2012 are as follows (in thousands of dollars):

	Balance June 30, 2011	Additions/ accruals	Deletions	Balance June 30, 2012
Capital assets not being depreciated:				
Land	$ 184,407	933	—	185,340
Construction in progress	3,953	40,734	(3,475)	41,212
Total capital assets not being depreciated	188,360	41,667	(3,475)	226,552
Capital assets being depreciated:				
Buildings and improvements	2,733,581	3,546	(2,935)	2,734,192
Furniture and fixtures	14,339	243	(85)	14,497
Machinery and equipment	106,229	1,187	(6,213)	101,203
Total capital assets being depreciated	2,854,149	4,976	(9,233)	2,849,892
Less accumulated depreciation:				
Buildings and improvements	(838,697)	(80,602)	1,611	(917,688)
Furniture and fixtures	(6,243)	(1,575)	85	(7,733)
Machinery and equipment	(68,285)	(8,344)	5,311	(71,318)
Total accumulated depreciation	(913,225)	(90,521)	7,007	(996,739)
Total capital assets being depreciated, net	1,940,924	(85,545)	(2,226)	1,853,153
Total capital assets, net	$ 2,129,284	(43,878)	(5,701)	2,079,705

Changes in capital assets for the year ended June 30, 2011 are as follows (in thousands of dollars):

	Balance June 30, 2010	Additions/ accruals	Deletions	Balance June 30, 2011
Capital assets not being depreciated:				
Land	$ 184,139	268	—	184,407
Construction in progress	3,821	2,703	(2,571)	3,953
Total capital assets not being depreciated	187,960	2,971	(2,571)	188,360
Capital assets being depreciated:				
Buildings and improvements	2,730,944	2,637	—	2,733,581
Furniture and fixtures	14,260	79	—	14,339
Machinery and equipment	105,583	810	(164)	106,229
Total capital assets being depreciated	2,850,787	3,526	(164)	2,854,149
Less accumulated depreciation:				
Buildings and improvements	(757,517)	(81,180)	—	(838,697)
Furniture and fixtures	(4,693)	(1,550)	—	(6,243)
Machinery and equipment	(59,008)	(9,441)	164	(68,285)
Total accumulated depreciation	(821,218)	(92,171)	164	(913,225)
Total capital assets being depreciated, net	2,029,569	(88,645)	—	1,940,924
Total capital assets, net	$ 2,217,529	(85,674)	(2,571)	2,129,284

On August 1, 2007, the McCormick Place West Building was placed into service and approximately $958 million of construction in progress was transferred to buildings and other classifications of fixed assets. The addition of the West Building increased depreciation expense by approximately $36 million annually. The balance of construction in progress related to the West Building was $2.0 million at June 30, 2011.

In fiscal year 2012, the Authority began constructing a new tower for the Hotel, adding 460 rooms. Additionally, the original tower will be renovated and a new 5,500 square-foot junior ballroom is being added. The second tower is expected to open in June 2013. The balance of construction in progress primarily related to the Hotel was $34.2 million at June 30, 2012. The total cost of Hotel capital additions was approximately $1.4 million and $1.0 million in 2012 and 2011, respectively.

(4) Lease Agreement/Deposit for NPI

Effective July 1, 2011, the Authority entered into a long-term lease agreement (the Lease Agreement) with NPI to manage, operate, and develop Navy Pier. Accordingly, beginning July 1, 2011, the financial activity of Navy Pier is no longer reflected in the accompanying basic financial statements. The Authority retains ownership of Navy Pier and NPI has the authority to make key decisions related to the operations, maintenance, and the implementation of the Pier's revitalization. These activities are defined as "Approved Operations" in the Lease Agreement, and are summarized as follows:

(a) implementation of the Framework Plan (defined hereafter),

(b) maintaining, repairing, operating, designing, financing, subleasing, licensing, developing, redeveloping, and/or demolishing the grounds, buildings and facilities consistent with the Framework Plan, and

(c) supporting and benefiting the Authority through developing and operating Navy Pier for the achievement of the Authority's governmental purposes.

The "Framework Plan" is a comprehensive long-term plan to maintain Navy Pier as a high-profile public attraction and to guide the redevelopment of Navy Pier. The Framework Plan sets forth business objectives (including the intent to maintain the public nature of Navy Pier), a master land use plan, investment priorities, development costs and potential sources of private and public funding along with the conditions to be satisfied by NPI in order to maintain public funding. The Framework Plan was developed during the transition period (from approximately February 2011 until the effective date of the lease of July 1, 2011) and can be amended by the parties throughout the lease term in accordance with the provisions of the Lease Agreement.

Significant terms of the Lease Agreement are as follows:

- The Lease Agreement term is from July 1, 2011 through June 30, 2036, with four renewal options of 20 years each, for a total possible term of 105 years. The Lease Agreement requires NPI to pay the Authority rent of $1 per year and to operate Navy Pier in accordance with the Framework Plan.
- The Authority shall deposit a mutually agreed-upon amount into an account established by NPI for the sole and exclusive benefit, and under the sole and exclusive control of NPI to be used for the implementation of the Approved Operations as defined in the Lease Agreement. The mutually agreed-upon amount shall not be more than $75 million and not less than $60 million dependent upon the amount of the Authority's available funds after determining the costs of certain Authority improvements and other expenses. The Authority may also make its bonding capacity available to NPI or to consent to financing the Approved Operations with debt obligations that extend beyond the term of the Lease Agreement.
- The Authority will loan NPI $5,000,000 to help fund the initial operating costs.
- Ownership of all personal property located on Navy Pier will be transferred to NPI. Accordingly, the Authority contributed to NPI parking, food service, theater, computer, and other miscellaneous equipment totaling approximately $2.2 million during the year ended June 30, 2012.

- NPI can terminate the Lease Agreement at any time. The Authority can terminate the agreement only upon default by NPI. Events of default include (a) failure by NPI to comply in any material respect with the Framework Plan, or with the terms of the Lease Agreement (if failure is not remedied within 90 days after written notice); (b) failure by NPI to pay the Promissory Note when due, and such failure continues for more than 60 days; (c) NPI abandons the premises; or (d) NPI is bankrupt or insolvent.
- At termination, all assets, including the premises and revenues from all sources, must be returned to the Authority. If donations cannot be legally transferred due to the intention of the donor, NPI and the Authority must mutually agree to the disposition.

The Authority has accounted for the Lease Agreement with NPI as an operating lease. As of June 30, 2012, the Authority deposited $60 million into a capital improvement account established by NPI. Approximately $826,000 has been spent by NPI for expenses related to the implementation of the Framework Plan, which is reflected as a contribution of cash to NPI in the accompanying statement of revenues, expenses, and changes in net assets for the year ended June 30, 2012. A deposit for NPI totaling approximately $59 million is reflected in the accompanying statement of net assets as of June 30, 2012. All leasehold improvements made to Navy Pier during the term of the Lease Agreement are recorded on NPI's financial statements.

(5) Note Receivable

In April 2011, the Authority provided a loan in the amount of $5 million to NPI for initial working capital (Working Capital Loan) in anticipation of the execution of a lease, which was effective July 1, 2011, wherein NPI will manage, operate and develop Navy Pier. No interest shall accrue on the Working Capital Loan. The loan amount shall be due and payable on the third anniversary of the lease commencement date. NPI may, by notice to the Authority, extend the term of the promissory note for a period of time reasonably necessary for NPI to achieve a balanced budget or to pay, or procure, financing for a material expenditure.

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2012 and 2011 are summarized as follows (in thousands of dollars):

		2012	2011
Accounts payable	$	26,088	20,346
Accrued salaries, wages, and benefits		3,658	5,318
Other accrued expenses		1,241	2,316
Total accounts payable and accrued expenses	$	30,987	27,980

(7) Long-Term Debt

Long-term debt outstanding at June 30, 2012 and 2011 is as follows (in thousands of dollars):

		2012	2011
Expansion project bonds:			
Series 1992A McCormick Place Expansion Project Bonds, maturing June 15, 2027, some subject to prior redemption, bearing stated interest at 4.35% to 50.00% (yielding 4.35% to 6.75%), payable semiannually; bonds with 50% stated rate were issued at a premium of approximately four times face value	$	234,379	219,340
Series 1994A and B McCormick Place Expansion Project Bonds, maturing June 15, 2029, some subject to prior redemption, bearing stated interest at 4.25% to 50.00% (yielding 4.25% to 6.70%), payable semiannually; bonds with 50% stated interest rate were issued at a premium of approximately four times face value		136,430	128,648
Series 1996A McCormick Place Expansion Refunding Bonds, maturing June 15, 2027, some subject to prior redemption, bearing stated interest at 4.10% to 6.00%, payable semiannually		257,603	299,960
Series 1998A and B McCormick Place Expansion Refunding Bonds, maturing June 15, 2029, some subject to prior redemption, bearing stated interest at 4.50% to 50.00% (yielding 4.325% to 5.040%), payable semiannually; bonds with 50% stated interest rate were issued at a premium of approximately five times face value		119,565	123,395
Series 1999 A, B, C, and D McCormick Place Expansion Project Bonds, maturing December 15, 2028, some subject to prior redemption, bearing stated interest at 5.25% to 7.16% (yielding 5.3% to 7.16%), payable semiannually		21,400	21,400
Series 2002 A, B, and C McCormick Place Expansion Project Bonds, maturing June 2042, some subject to prior redemption, bearing stated interest at 4.07% to 5.75% (yielding 3.68% to 6.08%), payable semiannually		1,278,979	1,234,114
Series 2010 A and B McCormick Place Expansion Project Bonds, maturing December 2050, some subject to prior redemption, bearing stated interest at 3.45% to 5.70% (yielding 4.92% to 6.23%), payable semiannually		1,140,525	1,121,314
Total expansion project bonds		3,188,881	3,148,171

		2012	2011
Dedicated state tax revenue bonds:			
Series 2002 Dedicated State Tax Revenue Refunding Bonds, maturing June 1, 2015, subject to prior redemption, bearing interest at 5.375%, payable semiannually	$	13,820	17,965
Total dedicated state tax revenue bonds		13,820	17,965
Total expansion project and dedicated state tax revenue bonds		3,202,701	3,166,136
Less current portion		(46,420)	(68,285)
Bonds payable – noncurrent		3,156,281	3,097,851
Plus unamortized net premium		327,873	330,441
Less unamortized amount on bond refunding		(93,836)	(97,406)
Total long-term debt	$	3,390,318	3,330,886

Changes in long-term obligations for the year ended June 30, 2012 are as follows (in thousands of dollars):

	Balance June 30, 2011	New issuance/refunding Additions	New issuance/refunding Deletions	Amortization /accretion, net	Principal payments	Balance June 30, 2012	Due within one year
Bonds payable	$ 3,166,137	—	—	104,849	(68,285)	3,202,701	46,420
Net premium on bonds payable	330,441	—	—	(2,568)	—	327,873	8,797
Deferred amount on refunding	(97,406)	—	—	3,570	—	(93,836)	(3,571)
Amount due to State of Illinois	57,219	—	—	—	—	57,219	—
Total long-term obligations	$ 3,456,391	—	—	105,851	(68,285)	3,493,957	51,646

Changes in long-term obligations for the year ended June 30, 2011 are as follows (in thousands of dollars):

	Balance June 30, 2010	New issuance/refunding Additions	New issuance/refunding Deletions	Amortization /accretion, net	Principal payments	Balance June 30, 2011	Due within one year
Bonds payable	$ 2,798,663	1,118,880	(814,215)	84,979	(22,170)	3,166,137	68,285
Net premium on bonds payable	332,031	(4,689)	10,322	(7,223)	—	330,441	10,408
Deferred amount on refunding	(56,839)	(66,600)	22,908	3,125	—	(97,406)	(3,570)
Amount due to State of Illinois	63,013	—	—	—	(5,794)	57,219	—
Total long-term obligations	$ 3,136,868	1,047,591	(780,985)	80,881	(27,964)	3,456,391	75,123

A summary of interest and amortization expense for the years ended June 30, 2012 and 2011 is as follows (in thousands of dollars):

		2012	2011
Interest expense	$	92,860	88,222
Bond accretion – capital appreciation bonds		104,849	84,979
Amortization of deferred loss on bond refunding		3,570	3,125
Amortization of bond issuance costs		1,464	1,721
Amortization of bond premium (discount), net		(2,568)	(7,223)
Total interest and amortization expense	$	200,175	170,824

On October 18, 2010, MPEA issued McCormick Place Expansion Project Refunding Bonds, Series 2010B, in the amount of $918,184 thousand to refund a portion of outstanding Series 1992A, 1994, 1996A, 1999, 2002, and 2004A Expansion Project Bonds and the outstanding Series 1995 and 1997 Dedicated State Tax Bonds. Proceeds from the sale were placed in an irrevocable trust that is to be used to service the future debt requirements of the old debt. The difference in cash flows between the old debt and the new debt was $2,234,412 thousand, which resulted in an economic loss totaling $47,163 thousand.

Annual Requirements

Total debt principal of $3.2 billion (and unamortized accretion on capital appreciation bonds of $4.7 billion) and interest due on bonds during the next five years and in subsequent five-year periods at June 30, 2012 are as follows (in thousands of dollars):

		Principal	Interest
Year(s) ending June 30:			
2013	$	46,420	100,483
2014		39,035	99,352
2015		70,260	98,761
2016		89,545	98,352
2017		99,955	97,937
2018 – 2022		636,915	526,415
2023 – 2027		883,585	435,326
2028 – 2032		1,196,290	338,450
2033 – 2037		1,286,925	325,937
2038 – 2042		1,294,900	317,966
2043 – 2047		1,338,040	237,192
2048 – 2050		864,305	80,720
	$	7,846,175	2,756,891

The 1992A, 1994, 1996A, 1998, 1999, 2002 and 2010 Expansion Project Bonds (the Expansion Project Bonds) are serviced with the proceeds of four taxes (collectively, Authority taxes). Components of Authority taxes include restaurant tax, car rental tax, hotel tax, and airport departure tax. The Authority is also authorized to receive certain surplus funds, if any, generated by the Illinois Sports Facilities Authority.

In addition, the State of Illinois established and holds an Authority Tax Fund with balances of $38 million and $65 million at June 30, 2012 and 2011, respectively. These balances in the Authority Tax Fund comprise the Authority taxes receivable line items in the statements of net assets as of June 30, 2012 and 2011, respectively.

An allocated portion of the State of Illinois sales tax is also available to service the Expansion Project Bonds in the event of shortfalls in Authority taxes. Beginning in fiscal year 2008, collections of Authority taxes were inadequate to fund annual debt service requirements for the Expansion Project Bonds, and the Authority began to draw funding from the state sales tax. The amount due to the State of Illinois for the year ended June 30, 2012 was $57.2 million and the amount due to the State of Illinois for the year ended June 30, 2011 was $57.2 million, net of year-end cash balances in the Authority Tax Fund. The State of Illinois has deferred repayment of the liability until after fiscal year 2014. Accordingly, the amount due to the State of Illinois is reflected as a long-term liability in the statements of net assets.

The debt service for 1992, 1995, 1997, and 2002 Dedicated State Tax Revenue Bonds is supported exclusively by dedicated state sales tax receipts. The Authority is subject to certain nonfinancial covenants in the Expansion Project Bonds and the Dedicated State Tax Revenue Bonds lending agreements. The Authority was in compliance with such covenants at June 30, 2012 and 2011.

In accordance with the Third Supplemental Indenture of Trust (the Indenture) applicable to the McCormick Place Expansion Project Bonds and the McCormick Place Expansion Project Refunding Bonds, the Authority, during fiscal year 1995, entered into two Debt Service Deposit Agreements. Under these agreements, the Authority received a lump-sum payment of $25.6 million in exchange for giving up the right to receive future earnings on investments of debt service balances. The Authority has no liability or continuing exposure for interest rate risk related to future earnings on such balances. Such risk is retained by the counterparty.

The Indenture also called for the establishment of an “Excess Revenue Reserve Subaccount” to meet applicable debt service requirements in the event that adequate funds to meet such requirements are not otherwise available. The “Excess Revenue Reserve Subaccount” was established from the proceeds of the Debt Service Deposit Agreements. The remaining proceeds were used to finance the Authority’s ongoing construction activities.

The Authority has refunded all or a portion of various bond issues by depositing U.S. government securities in irrevocable trusts to provide for future debt service payments on the refunded bonds. As a result, such bonds are considered to be legally defeased and the liability for these bonds has been removed from the statements of net assets. As of June 30, 2012, the original balances and the related escrow funds for refunded outstanding bonds are as follows (in thousands of dollars):

	Series	Original issue	Outstanding	Escrow
Description:				
1999 refunding of McCormick Place Hospitality Facilities Revenue Bonds	1996A	$ 127,420	69,560	75,728
2002 refunding of McCormick Place Expansion Project Bonds	1992A, 1994, 1996, 1998, 1999	196,213	67,386	112,156
2010 refunding of McCormick Place Expansion Project Bonds	1992A, 1994, 1996, 1999, 2002, 2004	662,761	26,476	97,622
		$ 986,394	163,422	285,506

(8) Pension Plan

(a) Plan Description

The Plan is a single-employer, defined benefit pension plan administered by the Authority. The Plan covers substantially all full-time, nonrepresented employees and certain union-represented employees if hired prior to July 1, 2009. The Plan was established under the authority of the Board of Directors of the Authority. During fiscal year 2012, the Authority restructured its organization and dramatically reduced the number of Authority employees. As a result, the number of remaining participants decreased. MPEA elected to freeze participation in the Plan and transition participants to the 401(a) Plan. Effective February 29, 2012, the Plan stopped accruing new benefits and remaining Authority employees began participating in the 401(a) Plan on March 1, 2012.

Participants in the Plan for fiscal years 2012 and 2011 (as of July 1, 2011 and 2010, respectively) are as follows:

	2012	2011
Retirees and beneficiaries receiving benefits	194	173
Vested terminated employees	312	228
Active employees:		
Fully vested	200	309
Nonvested	—	—
Total	706	710

Prior to July 2009, employees were eligible for the Plan on the first day of the month after attaining age 21 and completing one year of service. Employees are 100% vested after five years of service or after attaining age 55.

Employees earn a basic annual pension benefit equal to 1.5% of earnings for each year of service after July 1, 1978 plus any pension benefits accrued prior to July 1, 1978. After completing 10 years of service, employees are eligible for a minimum pension benefit equal to 3.33% of their highest average earnings times years of service, up to a maximum of 15 years. Employees eligible for the minimum pension always receive the greater of their basic pension or their minimum pension. Normal retirement under the Plan is age 65, but employees are eligible for an early retirement pension upon attaining age 55. Early retirement pensions are reduced to reflect a longer expected payment period.

If the amount of base retirement benefit payable to the retired employee or his or her beneficiary is less than $75 per month ($20 prior to June 2, 1986), a single-sum payment of the employee's entire nonforfeitable benefit will be made in lieu of monthly benefit payments, provided the present value of such benefit is not in excess of $5,000; a single-sum payment will be made only with the consent or acceptance of the payee. Otherwise, the employee shall receive his or her benefits as a life annuity payable monthly upon retirement.

(b) Funding Policy and Annual Pension Cost

Contributions to the Plan are made entirely by the Authority with no required employee contribution. Requirements of the Plan are actuarially determined but may be amended by the Board of Directors of the Authority. The Authority accounts for its pension liability or asset in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. GASB Statement No. 27 requires the accrued pension liability or asset be calculated as the cumulative difference, including interest, between the employer's required contributions in accordance with the Plan's actuarially required contribution funding requirements and the actual contributions made by the employer.

The actuarial required contribution rate for the Authority was 9.9% and 16.9% of covered payroll for the years ended June 30, 2012 and 2011, respectively. Contributions to the Plan were $6.3 million and $12.6 million for the years ended June 30, 2012 and 2011, respectively.

The Authority's annual pension cost and net pension asset for the years ended June 30, 2012 and 2011 are as follows (in thousands of dollars):

		2012	2011
Annual required contribution	$	1,188	3,128
Interest on net pension asset/obligation		(1,304)	(602)
Adjustment to annual required contribution		1,502	686
Annual pension cost		1,386	3,212
Contributions made		6,319	12,574
Other		—	(43)
Change in net pension asset		4,933	9,319
Net pension asset – beginning of year		17,384	8,065
Net pension asset – end of year	$	22,317	17,384

The actuarial methods and significant assumptions used to determine the annual required contributions for the years ended June 30, 2012 and 2011 were as follows:

	2012	2011
Valuation date	July 1, 2011	July 1, 2010
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar
Remaining amortization period for unfunded accrued liabilities	30 years (open)	30 years (open)
Asset valuation method	Market value	Market value
Investment rate of return	7.5%	7.5%
Projected salary increases	*	*
Cost-of-living adjustments	2.5	3.0

* 2012 – No increase; salaries assumed frozen as of December 31, 2011
2011 – 0% in the first year, 2% in the second year, and 4% after the first two years

(c) Three-Year Trend Information

The funding information for the Plan is as follows (in thousands of dollars):

		Annual pension cost (APC)	Percentage of APC		Net pension asset
Year ended:					
June 30, 2010	$	4,217	182.36%	$	8,065
June 30, 2011		3,213	391.39		17,383
June 30, 2012		1,386	455.94		22,317

(d) Funded Status and Funding Progress of the Plan

As of the most recent actuarial valuation date, July 1, 2011, the Plan was 94.71% funded. The actuarial accrued liability for benefits was $73,081,024 and the actuarial value of assets was $69,215,845 resulting in a funded actuarial deficit of $3,865,179. The covered payroll (annual payroll of active employees covered by the Plan) was $11,982,567. The ratio of the unfunded actuarial obligation to the covered payroll was 32.3%.

As of July 1, 2010, the Plan was 66.2% funded. The actuarial accrued liability for benefits was $73,705,033 and the actuarial value of assets was $48,790,557 resulting in a funded actuarial deficit of $24,914,476. The covered payroll (annual payroll of active employees covered by the Plan) was $18,468,254. The ratio of the unfunded actuarial obligation to the covered payroll was 134.9%.

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

(e) Plan Amendment

During fiscal year 2012, the Plan was amended to cease all further benefit accruals under the Plan effective as of February 29, 2012. Several minor amendments to the Plan regarding other public service, special unpaid leave and the Trustee position were made during fiscal year 2011. During fiscal year 2010, the Plan was amended to authorize an early retirement program.

(f) Reclassifications

Certain reclassifications have been made to the June 30, 2011 financial statement presentation to correspond to the current year's format. Net assets and changes in plan net assets are unchanged due to these reclassifications.

(9) Other Defined Contribution Plans

The Authority's total payroll was $34,508,161 and $52,564,465 for fiscal years 2012 and 2011, respectively. Total payroll includes employees covered under a number of separate multi-employer union plans. The Authority contributed to 32 separate multi-employer pension, retirement, and annuity plans in both fiscal years 2012 and 2011. Contributions under all plans are based on collective bargaining agreements with the various trade unions. Total pension and related contributions under the collective bargaining agreements approximated $4,704,667 and $4,915,010 for fiscal years 2012 and 2011, respectively.

The Authority also offers its nonunion employees a defined contribution plan (Contribution Plan) created in accordance with Internal Revenue Code Sections 401(a) and 415. The Authority is the administrator of the Contribution Plan. Effective July 1, 2009, all new hires (nonrepresented employees) were automatically enrolled in the Contribution Plan. Effective February 29, 2012, the Authority stopped accruing new benefits in the Retirement Plan and made the Contribution Plan available to all nonrepresented employees (effective March 1, 2012). The Authority established a discretionary employer contribution consisting of an automatic 3% of employee compensation and a 50% match of up to 8% of compensation on contributions made by the employee to the deferred compensation plan (described more fully in note 10 below). The contributions are not available to employees until termination, retirement, death, or unforeseeable emergency. All assets of the Contribution Plan are held in a trust in the name of the Contribution Plan and are used exclusively to pay benefits to the participants and their beneficiaries. As such, the Authority does not report plan assets and liabilities in the financial statements. The assets of the Contribution Plan, consisting primarily of open-ended mutual funds, approximated $86 thousand and $44 thousand as of June 30, 2012 and 2011, respectively. The Authority contributed $46 thousand to the Contribution Plan during fiscal year 2012. The Authority did not contribute to the Contribution Plan during fiscal year 2011.

(10) Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan (457 plan), available to all Authority employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All assets of the deferred compensation plan are held in a trust in the name of the Plan and are used exclusively to pay benefits to the participants and their beneficiaries. As such, the Authority does not report plan assets and liabilities in the financial statements. The assets of the deferred compensation plan, consisting primarily of open-ended mutual funds, were approximately $26.0 million and $30.8 million as of June 30, 2012 and 2011, respectively. Employees participating in the 457 plan contributed $1.1 million and $1.5 million during fiscal years 2012 and 2011, respectively.

(11) Lease Commitments

The Authority's East Exposition Building (Lakeside Center) and the adjoining underground parking facility are constructed on land leased from the Chicago Park District. Total expenses recorded under this operating lease were $376,000 and $348,000 for the years ended June 30, 2012 and 2011, respectively. The future minimum lease payments for operating noncancelable leases through December 31, 2030 are as follows (in thousands of dollars):

		Amount
Year(s) ending June 30:		
2013	$	406
2014		438
2015		475
2016		511
2017		552
2018 – 2022		4,028
2023 – 2027		8,654
2028 – 2031		5,652
	$	20,716

The Authority also leased certain copier equipment under an operating lease that expired in May 2011. The Authority is currently renting this equipment on a month-to-month basis. Rental expense under operating leases for the years ended June 30, 2012 and 2011 was approximately $0 and $483,000, respectively.

(12) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to customers, employees, contractors, or vendors; and natural disasters. The Authority utilizes a comprehensive insurance program for its property and casualty coverage provided by commercial insurance carriers. Insurance settlements have not exceeded coverage in any of the last three years.

Effective January 1, 2012, the Authority began participating in the Illinois Assigned Risk program for workers compensation. The current program is a loss sensitive rating program which provides coverage for the period January 1, 2012 through December 31, 2012. Individual claims are processed by an insurance carrier, assigned by the Illinois Assigned Risk program. The Authority is required to pay a premium based on estimated payroll amounts multiplied by the rates per classification code, as established in the contract between MPEA and the assigned insurance carrier, adjusted for estimated losses. Relative to this program, the Authority established a reserve amount of $1.4 million based on additional estimated payroll amounts and estimated losses as of June 30, 2012. The final premium amount will be determined in early calendar year 2013 based on an audit of actual payroll amounts and loss experience for the program period.

Prior to January 1, 2012, the Authority had a self-insurance program for workers' compensation for individual claims up to $750 thousand and was fully insured for claims in excess of $750 thousand up to the State of Illinois statutory limit.

Currently, the Authority's third-party administrator calculates the claims liabilities amount required for workers' compensation claims outstanding prior to January 1, 2012. The liability and expenses are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Changes in the total claims liabilities related to individual workers' compensation claims in the amount of $750,000 or less during the past two years are as follows (in thousands of dollars):

		2012	2011	2010
Balance – beginning of year	$	12,297	10,933	9,257
Claims and changes in estimates during year		1,451	5,076	4,825
Claims paid during year		(4,800)	(3,712)	(3,149)
Balance – end of year	$	8,948	12,297	10,933

(13) Risks and Uncertainties

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could affect the amounts reported in the basic financial statements.

(14) Commitments and Contingencies

In April 2011, the Authority entered into a management agreement with SMG to promote, operate, manage and maintain the McCormick Place complex. The management term began August 1, 2011 and ends June 30, 2016.

In April 2011, the Authority entered into a lease agreement with NPI. The lease agreement required NPI to establish a Capital Improvement Account on or before the lease commencement date. The lease agreement also required the Authority to deposit a mutually agreed-upon amount into the account established by NPI for the sole and exclusive benefit, and under the sole and exclusive control of NPI. Funds from this account may be used for the implementation of approved operations, including deferred maintenance and capital improvements, and for other rights of NPI as set forth in the lease agreement.

In July 2011, the Authority adopted Resolution No. MPEA 11-10 relative to the payment amount and procedures for the Navy Pier, Inc. Capital Improvement Account. Per the Resolution, the mutually agreed-upon amount shall be not more than $75 million and not less than $60 million dependent upon the amount of the Authority's available funds after determining the costs of certain Authority improvements and other expenses.

As of June 30, 2012, the Authority deposited $60 million into the Capital Improvement Account of which $826 thousand has been expensed.

In October 2011, the Authority entered into an agreement with SAVOR to manage the McCormick Place Food Service operations. The Authority established a reserve 10% of gross food service receipts primarily for the replacement of smallwares and equipment used in the food service operation. Under the previous agreement, the required reserve percentage was 7% through September 30, 2011. The funds can also be used for funding certain other foodservice-related activities. The balance in the reserve account as of June 30, 2012 and 2011 was approximately $62.9 thousand and $90.5 thousand, respectively, and is included in noncurrent restricted investments.

In 1998, the Authority began operations at the Hotel and entered into a management agreement with Hyatt Hotels Corporation to manage the daily operations of the Hotel. This agreement was amended and restated effective July 1, 1999. The management agreement was for a period commencing with the opening of the Hotel and expired on June 30, 2009. On July 1, 2009, the Authority entered into a new agreement for 15 years expiring on June 30, 2024.

The Authority is required to reserve 4% of gross receipts of the Hotel, as defined by the management agreement, for replacement of and additions to furnishings and equipment. The balance in the reserve as of June 30, 2012 and 2011 was approximately $1,678 thousand and $1,531 thousand, respectively. During 2012, approximately $2,164 thousand was funded to this account based on Hotel gross receipts and approximately $1,869 thousand was expended for furnishings and equipment for the Hotel.

On December 31, 1998, the Authority entered into an intergovernmental agreement (IGA) with the City to fund the Busway Project (a dedicated bus lane between the intersection of middle level Lake Street, Stetson Avenue, and McCormick Place). The Authority is funding this project using proceeds of the bonds deposited in the Series 1998B Project Account of the Project Fund. The anticipated commitment for this project is $43,187,286. The remaining commitment for this project is $250,000.

On June 24, 2003, the Authority entered into another IGA with the City to fund and develop certain off-site infrastructure and improvements in connection with the West Building Expansion of McCormick Place.

The Authority will pay for this project using proceeds of the Series 2002A Project Account of the Project Fund. The anticipated IGA commitment for this project is $74,400,506. The Authority has spent a total of $70,455,090 as of June 30, 2012 (of which $0 was incurred during fiscal year 2012 and $1,079,585 during fiscal year 2011). The remaining commitment for this project is $3,945,416.

The Authority has bond funds that are committed to be spent primarily for capital improvements in accordance with the underlying indentures. As of June 30, 2012, bond proceeds of $208,545,000 remained to be spent. The Authority has planned additional Hotel and related 2012 project spending.

In connection with the purchase of the Energy Center in September 2005, the Authority assumed certain long-term contracts from the Energy Center. In addition to supplying chilled water and steam for cooling and heating, respectively, for the McCormick Place campus, the Energy Center has six contracts to provide services to six outside customers at the Lakeside Technology Center located adjacent to the Energy Center. Under five of the contracts, the Energy Center has commitments to provide chilled water services. Under two of the contracts, the Energy Center has commitments to provide hot water services. The rates for these services are based on actual usage and are defined in the contracts. Under one of these agreements, the Authority is obligated to pay a facilities space fee of approximately $124,000 per year with a 3% annual increase.

The Authority has certain contingent liabilities resulting from litigation, claims, and commitments incident to the ordinary course of business. Also, state grant programs are subject to audit and the potential disallowance of costs. Management expects that final resolution of any such contingencies will not have a material effect on the financial position of the Authority.

(15) Subsequent Events

In July 2012, MPEA completed a $855 million restructuring of its outstanding debt, including $97 million Series 2012A new money bonds, $746 million Series 2012B refunding bonds, and $12 million Series 2012C taxable refunding bonds. Proceeds of the Series 2012A bonds primarily will be used to improve and maintain the Authority's facilities.

METROPOLITAN PIER AND EXPOSITION AUTHORITY

Required Supplementary Information –
Schedule of Funding Progress (Unaudited)
Metropolitan Pier and Exposition Authority Retirement Plan

Year ended June 30, 2012

Actuarial valuation date		Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded (assets in excess of) actuarial accrued liability (UAAL) (b-a)	Funded ratio (a/b)		Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
July 1, 2006	$	38,431	49,604	11,173	77.5%	$	19,157	58.3%
July 1, 2007		52,879	51,904	(975)	101.9		20,546	(4.7)
July 1, 2008		48,394	54,683	6,289	88.5		21,117	29.8
July 1, 2009	*	41,152	61,667	20,515	66.7		24,016	85.4
July 1, 2010	+	48,791	73,705	24,914	66.2		18,468	134.9
July 1, 2011		69,216	73,081	3,865	94.7		11,983	32.3

* Revised economic assumptions
\+ Change in benefits provided

See accompanying independent auditors' report.

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Metropolitan Pier and Exposition Authority:

We have audited the financial statements of the business-type activities and fiduciary activities of the Metropolitan Pier and Exposition Authority (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 12, 2012. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Metropolitan Pier and Exposition Authority Retirement Plan (the Plan), as described in our report on the Authority's financial statements. The financial statements of the Plan were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management of the Authority, and the Illinois General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

Chicago, Illinois
November 12, 2012