



**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Basic Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

# METROPOLITAN PIER AND EXPOSITION AUTHORITY

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## **Independent Auditors' Report**

The Board of Directors  
Metropolitan Pier and Exposition Authority:

### **Report on the Financial Statements**

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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 represent 100% of the assets and additions of the fiduciary activities as of and for the years ended June 30, 2013 and 2012. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Plan, is based solely on the report 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 from material misstatement. The financial statements of the Plan were not audited in accordance with *Government Auditing Standards*.

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

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



***Opinions***

In our opinion, based on our audits and the report of the other auditors, the 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, 2013 and 2012, and the respective changes in financial position, and where applicable, cash flows thereof for years then ended in accordance with U.S. general accepted accounting principles.

***Other Matters***

***Required Supplementary Information***

U.S. generally accepted accounting principles require that the information in the management's discussion and analysis and schedule of funding progress on pages 3 – 9 and 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

**KPMG LLP**

Chicago, Illinois  
November 21, 2013

# METROPOLITAN PIER AND EXPOSITION AUTHORITY

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 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, 2013 and 2012. Please read it in conjunction with the Authority's financial statements which follow this section.

## Financial Highlights

In July 2012, MPEA completed an \$855 million restructuring of its outstanding debt that raised \$125 million of new capital which will be used to improve and maintain the Authority's facilities, as well as new projects adjacent to McCormick Place.

During fiscal year 2013, the Authority completed the expansion of its existing hotel property including the renovation of the existing hotel tower and the addition of a second 462 room tower.

## Fiscal Year 2013 Compared to Fiscal Year 2012

Total assets at year-end 2013 of \$2.6 billion were less than liabilities of \$3.7 billion for a deficit net position at June 30, 2013 of \$1.1 billion.

Total assets increased from fiscal year 2012 to fiscal year 2013 by \$24 million primarily due to the increases in Authority taxes receivable, investments and accounts receivable. Authority taxes receivable increased by \$17.8 million as a direct result of increased tax collections. The increase in investment balances of \$10.3 million is primarily attributable to new capital raised to improve and maintain the Authority's facilities. Accounts receivable increased by \$8.5 million. This is a reflection of increased customer attendance at both the McCormick Place Convention Center and the McCormick Place Hyatt hotel. These increases were offset by a decrease in deferred bond issuance costs of \$5.4 million resulting from the debt restructuring in July 2012. The change in net position for fiscal year 2013 was \$122.4 million (net loss) which included an operating loss of \$91.4 million and net nonoperating expenses of \$31.0 million.

The Authority's deficit net position of \$1.1 billion reflects its investment in capital assets (land, buildings, etc.) of \$1.3 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 (\$70 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 (State 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.

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

### Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

The balance due to the State of Illinois for nonreimbursed draws on the State sales tax was \$57.2 million at June 30, 2012 and remained at \$57.2 million at June 30, 2013. The repayment of this amount due to the State has been deferred until after 2014.

The Authority completed a 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 further \$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, as well as new projects adjacent to McCormick Place.

Operating revenues in fiscal year 2013 of \$135.2 million increased by \$30.5 million compared to fiscal year 2012 due to higher exhibition facilities revenue of \$21.3 million, guest services of \$5.7 million, parking of \$1.2 million, and heating and cooling of \$0.7 million. Hospitality revenues were higher as compared to fiscal year 2012 by \$1.6 million resulting from a 4% increase in the occupancy rate and a higher average daily room rate.

Operating expenses in fiscal year 2013 of \$226.6 million increased by \$6.1 million as compared to fiscal year 2012 due to higher salaries, wages, and benefits of \$1.1 million, supplies, repairs and maintenance of \$0.9 million, utilities of \$1.5 million, and outsourced operations of \$3.0 million, offset by lower general and administrative of \$0.4 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 position entitled "Outsourced operations." Such expenses increased in fiscal year 2013, as compared to 2012, due to higher guest services, hotel, and parking expenses related to higher revenues in the same categories.

The operating loss in fiscal year 2013 of \$91.4 million decreased by \$24.4 million as compared to an operating loss of \$115.8 million in fiscal year 2012.

Nonoperating revenues in fiscal year 2013 of \$168.2 million increased by \$15.3 million as compared to fiscal year 2012 due to an increase in Authority taxes of \$15.8 million offset by a decrease in investment income of \$0.3 million and a decrease in state grants of \$0.2 million.

Nonoperating expenses in fiscal year 2013 of \$199.3 million decreased by \$4 million as compared to 2012 due to a decrease of \$7.4 million in interest and amortization expenses. This decrease is a direct result of the restructuring of the Authority's outstanding debt in July 2012. Additionally, contribution of capital assets to Navy Pier, Inc. (NPI) decreased \$2.2 million. These decreases were offset by an increase of \$5.6 million in contribution expense to NPI.

The statement of cash flows identifies sources and uses of cash activity for the fiscal year. Cash and cash equivalents increased by \$1.8 million during fiscal year 2013. This increase was primarily due to capital and related financing activities which provided a cash increase of \$18.4 million due to the additional capital raised by MPEA. This increase was offset by a \$10.2 million decrease in cash provided by investing activities and a decrease in cash from operating activities of \$6.4 million.

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

### 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 deficit net position 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 deficit net position 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 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.

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.

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

### Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

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 position 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.

### **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 position; statements of revenues, expenses, and changes in net position; statements of cash flows; statements of fiduciary net position; and statements of changes in fiduciary net position. Notes to the financial statements are also included.

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

The statement of revenues, expenses, and changes in net position 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 position for the fiscal year. The change in net position is added to the beginning-of-year net position to arrive at the net position 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



## METROPOLITAN PIER AND EXPOSITION AUTHORITY

### Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

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 position as of and for the fiscal years ended June 30, 2013, 2012, and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 493,632	468,189	545,288
Capital assets	2,078,361	2,079,705	2,129,284
Total assets	<u>\$ 2,571,993</u>	<u>2,547,894</u>	<u>2,674,572</u>
Current liabilities	\$ 98,732	98,834	117,150
Noncurrent liabilities	3,594,759	3,448,147	3,390,364
Total liabilities	<u>3,693,491</u>	<u>3,546,981</u>	<u>3,507,514</u>
Net position:			
Net investment in capital assets	(1,258,282)	(1,126,075)	(969,918)
Restricted for debt service	22,266	24,671	85,880
Unrestricted	114,518	102,317	51,096
Total net position	<u>(1,121,498)</u>	<u>(999,087)</u>	<u>(832,942)</u>
Total liabilities and net position	<u>\$ 2,571,993</u>	<u>2,547,894</u>	<u>2,674,572</u>

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

The following schedule presents a summary of business-type activities revenues for the fiscal years ended June 30, 2013, 2012, and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 135,228	104,702	171,805
Nonoperating revenues:			
State grants	36,956	37,132	41,844
Investment income	98	413	345
Authority taxes	<u>131,157</u>	<u>115,388</u>	<u>111,365</u>
Total nonoperating revenues	<u>168,211</u>	<u>152,933</u>	<u>153,554</u>
Total revenues	<u>\$ 303,439</u>	<u>257,635</u>	<u>325,359</u>

The following schedule presents a summary of business-type activities expenses for the fiscal years ended June 30, 2013, 2012, and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating expenses:			
Salaries, wages and benefits	\$ 42,348	41,244	82,976
Supplies, repairs and maintenance	22,207	21,278	33,961
Outsourced operations	48,500	45,544	46,607
Depreciation	90,533	90,521	92,171
Utilities	15,503	14,020	17,295
General and administrative	<u>7,509</u>	<u>7,933</u>	<u>16,601</u>
Total operating expenses	<u>226,600</u>	<u>220,540</u>	<u>289,611</u>
Nonoperating expenses:			
Intergovernmental payments	—	—	1,120
Interest and amortization expense and miscellaneous	<u>199,250</u>	<u>203,240</u>	<u>171,073</u>
Total nonoperating expenses	<u>199,250</u>	<u>203,240</u>	<u>172,193</u>
Total expenses	<u>\$ 425,850</u>	<u>423,780</u>	<u>461,804</u>

**Capital Acquisitions**

During fiscal years 2013 and 2012, the Authority spent \$91.4 million and \$30.5 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.

## **METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

### **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 \$3.3 billion as of June 30, 2013 and \$3.2 billion as of June 30, 2012. Original issue yields on the Authority's Expansion bonds ranged from 0.6% to 7.2% and 3.7% to 7.2% during fiscal years 2013 and 2012, respectively.

The Authority refunded the outstanding Dedicated State Tax bonds during fiscal year 2013. The Authority had \$14.0 million of outstanding debt serviced by dedicated State sales taxes as of June 30, 2012. There were no issues of Dedicated State Tax bonds during fiscal year 2013, and original issue yields on the Dedicated State Tax bonds was 5.375% during fiscal year 2012.

### **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 Position

June 30, 2013 and 2012

(Dollars in thousands)

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Current assets:		
Cash and cash equivalents – unrestricted	\$ 40,127	32,721
Cash and cash equivalents – restricted	6,144	11,738
Investments – unrestricted	1,742	1,742
Accounts receivable – net of allowance for doubtful accounts of \$95 and \$336 at June 30, 2013 and 2012, respectively	19,261	10,811
Prepaid expenses	1,913	2,823
Deposit for NPI	52,690	7,821
Authority taxes receivable – restricted	69,824	52,025
Total current assets	191,701	119,681
Noncurrent assets:		
Deposit for NPI	—	51,353
Investments – restricted	248,085	237,823
Deferred bond issuance costs – net of accumulated amortization of \$17,031 and \$22,418 at June 30, 2013 and 2012, respectively	26,628	32,015
Net pension asset	22,218	22,317
Note receivable from NPI	5,000	5,000
Capital assets:		
Land, buildings, and equipment	3,165,451	3,076,444
Accumulated depreciation	(1,087,090)	(996,739)
Capital assets – net	2,078,361	2,079,705
Total noncurrent assets	2,380,292	2,428,213
Total assets	\$ 2,571,993	2,547,894

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Business-Type Activities

Statements of Net Position

June 30, 2013 and 2012

(Dollars in thousands)

<b>Liabilities and Net Position</b>	<b>2013</b>	<b>2012</b>
	<hr/>	<hr/>
Current liabilities:		
Accounts payable and accrued expenses	\$ 32,147	30,987
Advance deposits	6,152	5,709
Retainage payable	5,087	1,953
Workers' compensation	5,032	4,552
Accrued interest	4,105	3,924
Current portion of bonds payable, net premium and deferred loss on refunding	46,209	51,646
Other current liabilities	—	63
Total current liabilities	<hr/>	<hr/>
	98,732	98,834
Noncurrent liabilities:		
Workers' compensation	2,538	5,836
Amount due to the State of Illinois	57,219	57,219
Bonds payable	3,285,552	3,156,281
Net premium on bonds payable	378,623	319,076
Deferred loss on refunding	(129,173)	(90,265)
Total noncurrent liabilities	<hr/>	<hr/>
	3,594,759	3,448,147
Total liabilities	<hr/>	<hr/>
	3,693,491	3,546,981
Net position:		
Net investment in capital assets	(1,258,282)	(1,126,075)
Restricted for debt service	22,266	24,671
Unrestricted	114,518	102,317
Total net position	<hr/>	<hr/>
	(1,121,498)	(999,087)
Total liabilities and net position	<hr/>	<hr/>
	\$ 2,571,993	2,547,894

See accompanying notes to basic financial statements.

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Business-Type Activities

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Use of exhibition facilities	\$ 52,298	31,008
Hospitality revenues	38,931	37,348
Guest services	24,467	18,801
Parking	10,050	8,862
Heating and cooling revenues	7,158	6,413
Other	<u>2,324</u>	<u>2,270</u>
Total operating revenues	<u>135,228</u>	<u>104,702</u>
Operating expenses:		
Salaries, wages, and benefits	42,348	41,244
Supplies, repairs, and maintenance	22,207	21,278
Outsourced operations:		
Hotel and other	26,946	26,120
Parking	5,791	5,096
Guest service	<u>15,763</u>	<u>14,328</u>
Subtotal – outsourced operations	48,500	45,544
Depreciation	90,533	90,521
Utilities	15,503	14,020
General and administrative	<u>7,509</u>	<u>7,933</u>
Total operating expenses	<u>226,600</u>	<u>220,540</u>
Operating loss	<u>(91,372)</u>	<u>(115,838)</u>
Nonoperating revenues (expenses):		
State grants	36,956	37,132
Investment income	98	413
Authority taxes	131,157	115,388
Contribution of cash to NPI	(6,484)	(826)
Interest and amortization expense	(192,766)	(200,175)
Contribution of capital assets to NPI	—	(2,226)
Miscellaneous, net	<u>—</u>	<u>(13)</u>
Total nonoperating revenues (expenses), net	<u>(31,039)</u>	<u>(50,307)</u>
Change in net position	(122,411)	(166,145)
Net position – beginning of year	<u>(999,087)</u>	<u>(832,942)</u>
Net position – end of year	<u><u>\$ (1,121,498)</u></u>	<u><u>(999,087)</u></u>

See accompanying notes to basic financial statements.

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 127,221	104,049
Cash payments for goods and services	(88,578)	(84,766)
Cash payments to or for employees	(45,067)	(48,087)
Net cash used in operating activities	<u>(6,424)</u>	<u>(28,804)</u>
Cash flows from capital and related financing activities:		
Authority tax receipts	113,358	145,119
Grant receipts	36,956	37,132
Bond proceeds	914,167	—
Payments for bond refundings	(805,273)	—
Payment for bond issuance costs	(5,281)	—
Bond principal repayments	(50,490)	(68,285)
Interest paid	(96,412)	(94,808)
Deposit for NPI	6,484	(59,174)
Contribution expense – NPI	(6,484)	(826)
Payments for capital acquisitions	(88,624)	(41,299)
Net cash provided by (used in) capital and related financing activities	<u>18,401</u>	<u>(82,141)</u>
Cash flows from investing activities:		
Investment sales, maturities, and other receipts	109,545	123,015
Investment purchases	(119,808)	—
Receipt of interest and dividends	98	413
Net cash provided by (used in) investing activities	<u>(10,165)</u>	<u>123,428</u>
Net increase in cash and cash equivalents	1,812	12,483
Cash and cash equivalents – beginning of year	<u>44,459</u>	<u>31,976</u>
Cash and cash equivalents – end of year	\$ <u>46,271</u>	\$ <u>44,459</u>
Reconciliation of cash and cash equivalents to statements of net position:		
Cash and cash equivalents – unrestricted	\$ 40,127	32,721
Cash and cash equivalents – restricted	6,144	11,738
	\$ <u>46,271</u>	\$ <u>44,459</u>

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (91,372)	(115,838)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	90,533	90,521
Changes in operating assets and liabilities:		
Accounts receivable	(8,450)	316
Prepaid expenses	910	(836)
Accounts payable, accrued expenses, and other current liabilities	4,231	4,845
Net pension asset	99	(4,934)
Advance deposits	443	(969)
Workers' compensation	(2,818)	(1,909)
Total adjustments	<u>84,948</u>	<u>87,034</u>
Net cash used in operating activities	<u>\$ (6,424)</u>	<u>(28,804)</u>

See accompanying notes to basic financial statements.



**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Fiduciary Activities

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

June 30, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Assets:		
Investments, at fair value:		
Equity mutual funds	\$ 18,579	17,600
Common/collective trusts	19,568	18,115
Equity separate account	10,121	10,082
Fixed income mutual fund	14,495	13,645
Fixed income separate account	14,494	13,230
Money market accounts	<u>603</u>	<u>110</u>
Total investments, at fair value	77,860	72,782
Deposit with paying agent	<u>310</u>	<u>—</u>
Net position restricted for pension benefits	<u>\$ 78,170</u>	<u>72,782</u>

See accompanying notes to basic financial statements.

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Fiduciary Activities

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

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Additions:		
Investment income:		
Net appreciation (depreciation) in fair value of Plan's interest in:		
Equity mutual funds	\$ 4,333	(1,342)
Common/collective trusts	2,728	415
Equity separate account	1,798	140
Fixed income mutual fund	(382)	370
Fixed income separate account	(576)	497
Interest income	728	790
Dividend income	878	713
Net investment income	<u>9,507</u>	<u>1,583</u>
Employer contributions	494	6,319
Total additions	<u>10,001</u>	<u>7,902</u>
Deductions:		
Deductions from net position attributed to:		
Benefits paid to participants	4,288	4,019
Administrative expenses	325	317
Total deductions	<u>4,613</u>	<u>4,336</u>
Increase in net position restricted for pension benefits	5,388	3,566
Net position restricted for pension benefits:		
Beginning of year	<u>72,782</u>	<u>69,216</u>
End of year	\$ <u><u>78,170</u></u>	\$ <u><u>72,782</u></u>

See accompanying notes to basic financial statements.

# METROPOLITAN PIER AND EXPOSITION AUTHORITY

Notes to Basic Financial Statements

June 30, 2013 and 2012

## (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.

# METROPOLITAN PIER AND EXPOSITION AUTHORITY

## Notes to Basic Financial Statements

June 30, 2013 and 2012

**(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.

**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.

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2013 and 2012

**(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, 2013 and 2012 is \$0.6 million and \$1.9, respectively.

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

	<u>Years</u>
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 Position**

Net position is categorized as follows:

**Net investment in capital assets** – 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.

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

### Notes to Basic Financial Statements

June 30, 2013 and 2012

**Restricted** – This consists of net position that is 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 position that does not meet the definition of “restricted” or “net investment in capital assets.”

**(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, 2010 and 2012 Expansion Project Bonds. Amounts recognized but not received are reported as restricted, as amounts are to be used to fund debt service for the above noted bonds. The Authority 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 Governmental Accounting Standards Board (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 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. The 2002 Dedicated State Tax Bonds were refunded in fiscal year 2013.

**(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

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

### Notes to Basic Financial Statements

June 30, 2013 and 2012

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

**(n) *Reclassifications***

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

**(o) *New Accounting Pronouncements***

In 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 implemented this Statement during the fiscal year ended June 30, 2013, however because the Authority does not have any service concession arrangements, the implementation of this Statement had no impact on its financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—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 implemented this Statement during the fiscal year ended June 30, 2013, however because the Authority does not have any component units, the implementation of this Statement had no 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 implemented this Statement during the fiscal year ended June 30, 2013. The implementation of this Statement had no impact on the Authority's 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 introduced and defined deferred outflows and deferred inflows as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This Statement also amended the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Authority implemented this Statement during the fiscal year ended

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

### Notes to Basic Financial Statements

June 30, 2013 and 2012

June 30, 2013. The Authority renamed its basic financial statements from the net asset measure to the net position measure, however there was no other impact on its financial statements as a result of the implementation.

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 implemented this Statement during the fiscal year ended June 30, 2012, however because the Authority does not have any derivative instruments, the implementation of this statement had no impact on its financial statements.

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 Governmental 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.



**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2013 and 2012

**(2) Cash and Investments**

A summary of cash and investments as of June 30, 2013 and 2012 is as follows (amounts are in thousands):

	<u>2013</u>	<u>2012</u>
Business-type activities:		
Cash and demand deposits	\$ 46,271	44,459
Certificates of deposit	1,500	1,500
Government money market funds	<u>248,327</u>	<u>238,065</u>
Total business-type activities	<u>296,098</u>	<u>284,024</u>
Fiduciary activities:		
Equity mutual funds	18,579	17,600
Common/collective trusts	19,568	18,115
Equity separate account	10,121	10,082
Fixed-income mutual fund	14,495	13,645
Fixed-income separate account	14,494	13,230
Money market account	<u>603</u>	<u>110</u>
Total investments	77,860	72,782
Deposit with paying agent	<u>310</u>	—
Total fiduciary activities	<u>78,170</u>	<u>72,782</u>
Total cash and investments	<u>\$ 374,268</u>	<u>356,806</u>

**(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;

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

### Notes to Basic Financial Statements

June 30, 2013 and 2012

- (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.

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

### Notes to Basic Financial Statements

June 30, 2013 and 2012

As of June 30, 2013, the maturities for the Authority's fixed-income investments are as follows (in thousands of dollars):

	<u>Fair value</u>	<u>Investment maturities (years)</u>			<u>More than 10</u>
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	
Government money market funds	\$ 248,327	248,327	—	—	—

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

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

### 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, 2013 and 2012, the Authority did not have any investments subject to concentration of credit risk.

### 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, 2013 and 2012, the Authority held no commercial paper. The Authority's investments in money market funds were rated AAA by Standard & Poor's.

### 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.

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2013 and 2012

**(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 5.48 years and 4.88 years at June 30, 2013 and 2012, 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, 2013 and 2012.

**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, 2013 and 2012. The ratings of the Authority’s investments in the fixed-income separate account are as follows at June 30, 2013 (in thousands of dollars):

<u>Credit ratings</u>	<u>Corporate bonds</u>	<u>Government securities</u>	<u>Municipal obligations</u>	<u>Money market</u>	<u>Total</u>
Aaa/AAA	\$ 659	—	411	—	1,070
Aa/AA	1,034	—	430	—	1,464
A/A	2,598	—	—	—	2,598
Baa/BBB	2,445	—	54	—	2,499
Treasury	—	1,983	—	—	1,983
Agency	—	4,204	—	—	4,204
Not rated	—	—	—	676	676
Total	<u>\$ 6,736</u>	<u>6,187</u>	<u>895</u>	<u>676</u>	<u>14,494</u>

# METROPOLITAN PIER AND EXPOSITION AUTHORITY

## Notes to Basic Financial Statements

June 30, 2013 and 2012

The ratings of the Authority's investments in the fixed-income separate account are as follows at June 30, 2012 (in thousands of dollars):

<u>Credit ratings</u>	<u>Corporate bonds</u>	<u>Government securities</u>	<u>Municipal obligations</u>	<u>Money market</u>	<u>Total</u>
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	<u>\$ 5,527</u>	<u>5,947</u>	<u>1,025</u>	<u>731</u>	<u>13,230</u>

### **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.

### **Deposit with Paying Agent**

Beginning in fiscal year 2013, the Plan established a money market account with Amalgamated Bank to fund the benefit payments. The amount reflected as deposit with paying agent represents funds deposited with the Plan's payroll processor as of June 30, 2013 for the purpose of paying retirement benefits due on July 1, 2013.

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2013 and 2012

**(3) Capital Assets**

Changes in capital assets for the year ended June 30, 2013 are as follows (in thousands of dollars):

	<u>Balance June 30, 2012</u>	<u>Additions/ accruals</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 185,340	5,589	—	190,929
Construction in progress	<u>41,212</u>	<u>81,383</u>	<u>(106,342)</u>	<u>16,253</u>
Total capital assets not being depreciated	<u>226,552</u>	<u>86,972</u>	<u>(106,342)</u>	<u>207,182</u>
Capital assets being depreciated:				
Buildings and improvements	2,734,192	89,842	—	2,824,034
Furniture and fixtures	14,497	15,403	—	29,900
Machinery and equipment	<u>101,203</u>	<u>3,314</u>	<u>(182)</u>	<u>104,335</u>
Total capital assets being depreciated	<u>2,849,892</u>	<u>108,559</u>	<u>(182)</u>	<u>2,958,269</u>
Less accumulated depreciation:				
Buildings and improvements	(917,688)	(81,173)	—	(998,861)
Furniture and fixtures	(7,733)	(1,773)	—	(9,506)
Machinery and equipment	<u>(71,318)</u>	<u>(7,587)</u>	<u>182</u>	<u>(78,723)</u>
Total accumulated depreciation	<u>(996,739)</u>	<u>(90,533)</u>	<u>182</u>	<u>(1,087,090)</u>
Total capital assets being depreciated, net	<u>1,853,153</u>	<u>18,026</u>	<u>—</u>	<u>1,871,179</u>
Total capital assets, net	<u>\$ 2,079,705</u>	<u>104,998</u>	<u>(106,342)</u>	<u>2,078,361</u>

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2013 and 2012

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

	<b>Balance June 30, 2011</b>	<b>Additions/ accruals</b>	<b>Deletions</b>	<b>Balance June 30, 2012</b>
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	<u>188,360</u>	<u>41,667</u>	<u>(3,475)</u>	<u>226,552</u>
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	<u>2,854,149</u>	<u>4,976</u>	<u>(9,233)</u>	<u>2,849,892</u>
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	<u>(913,225)</u>	<u>(90,521)</u>	<u>7,007</u>	<u>(996,739)</u>
Total capital assets being depreciated, net	<u>1,940,924</u>	<u>(85,545)</u>	<u>(2,226)</u>	<u>1,853,153</u>
Total capital assets, net	\$ <u>2,129,284</u>	<u>(43,878)</u>	<u>(5,701)</u>	<u>2,079,705</u>

In fiscal year 2013, the Authority constructed a new tower for the Hotel, adding 460 rooms. Additionally, the original tower was renovated and a new 5,500 square-foot junior ballroom was added. The balance of construction in progress primarily related to the Hotel was \$10.8 million at June 30, 2013. The total cost of Hotel capital additions was approximately \$102.4 million and \$1.4 million in fiscal years ended June 30, 2013 and 2012, respectively.

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

### Notes to Basic Financial Statements

June 30, 2013 and 2012

#### (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.



**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

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- 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 \$6.5 million and \$826 thousand has been spent by NPI during the years ended June 30, 2013 and 2012, respectively, for expenses related to the implementation of the Framework Plan. These amounts are reflected as contributions to NPI in the accompanying statements of revenues, expenses, and changes in net position for the years ended June 30, 2013 and 2012. A deposit for NPI totaling approximately \$53 million and \$59 million is reflected in the accompanying statements of net position as of June 30, 2013 and 2012, respectively. The deposit is recorded as a current asset as of June 30, 2013 as it is expected to be spent in its entirety during the fiscal year ending June 30, 2014. All leasehold improvements made to Navy Pier during the term of the Lease Agreement are recorded on NPI's financial statements.

**(5) Note Receivable from NPI**

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, 2013 and 2012 are summarized as follows (in thousands of dollars):

	<u>2013</u>	<u>2012</u>
Accounts payable	\$ 27,553	26,088
Accrued salaries, wages, and benefits	3,884	3,658
Other accrued expenses	710	1,241
Total accounts payable and accrued expenses	<u>\$ 32,147</u>	<u>30,987</u>

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Notes to Basic Financial Statements

June 30, 2013 and 2012

**(7) Long-Term Debt**

Long-term debt outstanding at June 30, 2013 and 2012 is as follows (in thousands of dollars):

	<b>2013</b>	<b>2012</b>
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	\$ 204,226	234,379
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	139,658	136,430
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	256,506	257,603
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 5.04%), payable semiannually; bonds with 50% stated interest rate were issued at a premium of approximately five times face value	117,235	119,565
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 5.30% to 7.16%), payable semiannually	5,650	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	597,141	1,278,979
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	1,154,336	1,140,525
Series 2012 A, B, and C McCormick Place Expansion Project Bonds, maturing December 2050, some subject to prior redemption, bearing stated interest at 0.44% to 5.00% (yielding 0.55% to 5.71%) payable semiannually	850,910	—
Total expansion project bonds	3,325,662	3,188,881

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
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
Total dedicated state tax revenue bonds	—	13,820
Total expansion project and dedicated state		
tax revenue bonds	3,325,662	3,202,701
Less current portion	(40,110)	(46,420)
Bonds payable – noncurrent	3,285,552	3,156,281
Plus unamortized net premium	388,905	327,873
Less unamortized amount on bond refunding	(133,356)	(93,836)
Total long-term debt	\$ <u>3,541,101</u>	<u>3,390,318</u>

Changes in long-term obligations for the year ended June 30, 2013 are as follows (in thousands of dollars):

	<u>Balance</u>	<u>New issuance/refunding</u>	<u>Amortization/</u>			<u>Balance</u>	<u>Due</u>
	<u>June 30,</u>	<u>Additions</u>	<u>accretion,</u>	<u>Principal</u>		<u>June 30,</u>	<u>within</u>
	<u>2012</u>	<u>Deletions</u>	<u>net</u>	<u>payments</u>		<u>2013</u>	<u>one year</u>
Bonds payable	\$ 3,202,701	855,309	(780,865)	99,007	(50,490)	3,325,662	40,110
Net premium on bonds payable	327,873	58,858	11,974	(9,800)	—	388,905	10,282
Deferred amount on refunding	(93,836)	(55,658)	10,406	5,732	—	(133,356)	(4,183)
Amount due to State of Illinois	57,219	—	—	—	—	57,219	—
Total long-term obligations	\$ <u>3,493,957</u>	<u>858,509</u>	<u>(758,485)</u>	<u>94,939</u>	<u>(50,490)</u>	<u>3,638,430</u>	<u>46,209</u>

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

	<u>Balance</u>	<u>New issuance/refunding</u>	<u>Amortization/</u>			<u>Balance</u>	<u>Due</u>
	<u>June 30,</u>	<u>Additions</u>	<u>accretion,</u>	<u>Principal</u>		<u>June 30,</u>	<u>within</u>
	<u>2011</u>	<u>Deletions</u>	<u>net</u>	<u>payments</u>		<u>2012</u>	<u>one year</u>
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	\$ <u>3,456,391</u>	<u>—</u>	<u>—</u>	<u>105,851</u>	<u>(68,285)</u>	<u>3,493,957</u>	<u>51,646</u>

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Notes to Basic Financial Statements

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A summary of interest and amortization expense for the years ended June 30, 2013 and 2012 is as follows (in thousands of dollars):

	<u>2013</u>	<u>2012</u>
Interest expense	\$ 96,603	92,860
Bond accretion – capital appreciation bonds	99,007	104,849
Amortization of deferred loss on bond refunding	5,732	3,570
Amortization of bond issuance costs	1,224	1,464
Amortization of bond premium (discount), net	<u>(9,800)</u>	<u>(2,568)</u>
Total interest and amortization expense	\$ <u>192,766</u>	<u>200,175</u>

On July 12, 2012, MPEA issued McCormick Place Expansion Project Refunding Bonds, Series 2012B and 2012C, in the amount of \$758,234 thousand to refund a portion of outstanding Series 1992A, and 2002 Expansion Project Bonds and the outstanding Series 2002 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 \$393,919 thousand, which resulted in an economic gain totaling \$35,356 thousand.

***Annual Requirements***

Total debt principal of \$3.3 billion (and unamortized accretion on capital appreciation bonds of \$5.1 billion) and interest due on bonds during the next five years and in subsequent five-year periods at June 30, 2013 are as follows (in thousands of dollars):

	<u>Principal</u>	<u>Interest</u>
Year(s) ending June 30:		
2014	\$ 40,110	98,276
2015	59,025	97,903
2016	68,715	97,761
2017	80,330	97,610
2018	84,335	108,507
2019 – 2023	714,890	507,847
2024 – 2028	920,650	413,506
2029 – 2033	1,244,615	328,862
2034 – 2038	1,286,925	325,608
2039 – 2043	1,299,650	313,078
2044 – 2048	1,344,300	268,529
2049 – 2050	<u>1,221,301</u>	<u>68,861</u>
	\$ <u>8,364,846</u>	<u>2,726,348</u>

The 1992A, 1994, 1996A, 1998, 1999, 2002, 2010, and 2012 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.

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

### Notes to Basic Financial Statements

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In addition, the State of Illinois established and holds an Authority Tax Fund with balances of \$53 million and \$38 million at June 30, 2013 and 2012, respectively, which consist of cash collected for Authority Taxes not yet remitted to MPEA. These balances in the Authority Tax Fund are included in the Authority taxes receivable line items in the statements of net position as of June 30, 2013 and 2012, 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 years ended June 30, 2013 and 2012 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 position.

The debt service for the 2002 Dedicated State Tax Revenue Bonds, which were paid off during fiscal year 2013, 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, 2013 and 2012.

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.

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Notes to Basic Financial Statements

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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 position. As of June 30, 2013, the original balances and the related escrow funds for refunded outstanding bonds are as follows (in thousands of dollars):

Description:	<u>Series</u>	<u>Original issue</u>	<u>Outstanding</u>	<u>Escrow</u>
1999 refunding of McCormick Place Hospitality Facilities Revenue Bonds	1996A	\$ 127,420	69,560	75,310
2002 refunding of McCormick Place Expansion Project Bonds	1992A, 1994, 1996, 1998, 1999	196,213	58,360	82,845
2010 refunding of McCormick Place Expansion Project Bonds	1992A, 1994, 1996, 1999, 2002, 2004	662,761	15,479	63,569
2012 refunding of McCormick Place Expansion Project Bonds	1992A, 2002	<u>767,045</u>	<u>11,580</u>	<u>56,184</u>
		\$ <u>1,753,439</u>	<u>154,979</u>	<u>277,908</u>

**(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 2013 and 2012 (as of July 1, 2012 and 2011, respectively) are as follows:

	<u>2013</u>	<u>2012</u>
Retirees and beneficiaries receiving benefits	213	194
Vested terminated employees	459	312
Active employees:		
Fully vested	22	200
Nonvested	<u>—</u>	<u>—</u>
Total	<u>694</u>	<u>706</u>

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

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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 18.4% and 9.9% of covered payroll for the years ended June 30, 2013 and 2012, respectively. Contributions to the Plan were \$494 thousand and \$6.3 million for the years ended June 30, 2013 and 2012, respectively.

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The Authority's annual pension cost and net pension asset for the years ended June 30, 2013 and 2012 are as follows (in thousands of dollars):

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 316	1,188
Interest on net pension asset/obligation	(1,674)	(1,304)
Adjustment to annual required contribution	<u>1,951</u>	<u>1,502</u>
Annual pension cost	593	1,386
Contributions made	<u>494</u>	<u>6,319</u>
Change in net pension asset	(99)	4,933
Net pension asset – beginning of year	<u>22,317</u>	<u>17,384</u>
Net pension asset – end of year	<u><u>\$ 22,218</u></u>	<u><u>22,317</u></u>

The actuarial methods and significant assumptions used to determine the annual required contributions for the years ended June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Valuation date	July 1, 2012	July 1, 2011
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	2.25	2.50

\* 2013 – No increase; salaries assumed frozen as of February 29, 2012  
 2012 – No increase; salaries assumed frozen as of December 31, 2011



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**(c) Three-Year Trend Information**

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

	<b>Annual pension cost (APC)</b>	<b>Percentage of APC</b>	<b>Net pension asset</b>
Year ended:			
June 30, 2011	\$ 3,213	391.39	\$ 17,383
June 30, 2012	1,386	455.94	22,317
June 30, 2013	593	83.43	22,218

**(d) Funded Status and Funding Progress of the Plan**

As of the most recent actuarial valuation date, July 1, 2012, the Plan was 95.27% funded. The actuarial accrued liability for benefits was \$76,391,718 and the actuarial value of assets was \$72,782,195 resulting in a funded actuarial deficit of \$3,609,523. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,712,727. The ratio of the unfunded actuarial obligation to the covered payroll was 210.8%.

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**

On October 23, 2013, the Plan was amended to include contributions, benefits and service credit with respect to qualified military service. During fiscal year 2012, the Plan was amended to cease all further benefit accruals under the Plan effective as of February 29, 2012.

**(9) Other Defined Contribution Plans**

The Authority's total payroll was \$22,889,891 and \$34,508,161 for fiscal years 2013 and 2012, 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 2013 and 2012. 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 \$4,294,746 and \$4,704,667 for fiscal years 2013 and 2012, 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

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Notes to Basic Financial Statements

June 30, 2013 and 2012

(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 accompanying financial statements. The assets of the Contribution Plan, consisting primarily of open-ended mutual funds, approximated \$225 thousand and \$86 thousand as of June 30, 2013 and 2012, respectively. The Authority contributed \$116 thousand to the Contribution Plan during fiscal year 2013 and \$46 thousand during fiscal year 2012.

**(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 accompanying financial statements. The assets of the deferred compensation plan, consisting primarily of open-ended mutual funds, were approximately \$24.0 million and \$26.0 million as of June 30, 2013 and 2012, respectively. Employees participating in the 457 plan contributed \$0.7 million and \$1.1 million during fiscal years 2013 and 2012, 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 \$688,000 and \$376,000 for the years ended June 30, 2013 and 2012, respectively. The future minimum lease payments for operating noncancelable leases through December 31, 2042 are as follows (in thousands of dollars):

	<b>Amount</b>
Year(s) ending June 30:	
2014	\$ 753
2015	799
2016	847
2017	897
2018	951
2019 – 2023	5,683
2024 – 2028	7,564
2029 – 2033	9,107
2034 – 2038	11,682
2039 – 2042	11,708
	\$ 49,991

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2013 and 2012

**(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, 2013. 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. The insurance carrier is required to perform a one-time audit of the actual payroll amounts for each calendar year of coverage. The audited payroll amounts are used as the basis for determining the final premium amount. Additionally, the insurance carrier must provide an annual valuation of losses for four consecutive years. The results of the fourth valuation determine the final total incurred loss amount for each calendar year of coverage. The combination of the audited payroll amounts and the estimated value of losses represent the total estimated premium amount.

Based on the audited payroll amounts for calendar year 2012 and the estimated payroll amounts for calendar year 2013, plus estimated losses, the Authority determined that the amount expensed through June 30, 2013 approximates the required reserve amount. As a result, the Authority established a reserve amount of \$2 thousand as of June 30, 2013. The Authority established a reserve amount of \$1.4 million based on additional estimated payroll amounts and estimated losses as of June 30, 2012.

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):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Balance – beginning of year	\$ 8,948	12,297	10,933
Claims and changes in estimates during year	2,412	1,451	5,076
Claims paid during year	<u>(3,790)</u>	<u>(4,800)</u>	<u>(3,712)</u>
Balance – end of year	<u>\$ 7,570</u>	<u>8,948</u>	<u>12,297</u>

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

### Notes to Basic Financial Statements

June 30, 2013 and 2012

#### **(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**

On June 25, 2013, the Authority awarded a contract for architectural and engineering services for McCormick Place Hotel development. The architectural and engineering firm will work with the Authority, the Authority's hotel operator, and the Authority's other consultants to develop the bridging design documents for a new 1,200 room headquarters hotel. The bridging documents include the building program, schematic design documents, critical design details and the performance criteria for the mechanical and structural components of the building that shall be the basis for the Authority soliciting design/build team proposals for the hotel's final design and maintenance. Construction of the new hotel is expected to begin in the fall of 2014. Completion is expected during the fall of 2016.

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 \$6,484 thousand and \$826 thousand has been expensed during the fiscal years ended June 30, 2013 and 2012, respectively.

In October 2011, the Authority entered into an agreement with SAVOR to manage the McCormick Place Food Service operations. The Authority established a reserve of 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, 2013 and 2012 was approximately \$3.5 million and \$62.9 thousand, respectively, and is included in investments.

## METROPOLITAN PIER AND EXPOSITION AUTHORITY

### Notes to Basic Financial Statements

June 30, 2013 and 2012

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, 2013 and 2012 was approximately \$3,810 thousand and \$2,447 thousand, respectively, which is included in restricted cash and cash equivalents in the accompanying financial statements. During 2013, approximately \$2,320 thousand was funded to this account based on Hotel gross receipts and approximately \$957 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 of Chicago 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, as of June 30, 2013.

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 \$70,455,089 as of June 30, 2013 (of which none was incurred during fiscal year 2013 or 2012). 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, 2013, bond proceeds of \$128,662,000 remained to be spent. The Authority has planned additional Hotel and related 2013 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.

# **METROPOLITAN PIER AND EXPOSITION AUTHORITY**

## Notes to Basic Financial Statements

June 30, 2013 and 2012

### **(15) Subsequent Events**

On September 13, 2013, the Authority awarded a contract for construction consulting services to assist the Authority in oversight and overall management of the planning, design, and construction activities for the McCormick Place Development projects. The projects include the development of the 1200-room headquarters hotel, the event center, and possibly a privately developed mixed-use entertainment district adjacent to the event center. The hotel and event center are expected to be completed in the fourth calendar quarter of 2016. On September 13, 2013, MPEA also awarded a contract to operate the new headquarters hotel. The term of the contract will be ten years, starting from the opening date of the hotel.

**METROPOLITAN PIER AND EXPOSITION AUTHORITY**

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

Year ended June 30, 2013

<b>Actuarial valuation date</b>		<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (AAL) (b)</b>	<b>Unfunded (assets in excess of) actuarial accrued liability (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>		<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll ((b-a)/c)</b>
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
July 1, 2012		72,782	76,392	3,610	95.3		1,713	210.8

\* Revised economic assumptions

+ Change in benefits provided

See accompanying independent auditors' report.



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**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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 21, 2013. Our report includes a reference to other auditors who 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**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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, 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Chicago, Illinois  
November 21, 2013