

# Marriott Marquis— Chicago

(Accounts Maintained by Marriott International)

Financial Statements and Supplementary  
Information as of and for the Years Ended  
June 30, 2020 and 2019, and  
Independent Auditors' Report

# **MARRIOTT MARQUIS—CHICAGO**

## **(Accounts Maintained by Marriott International)**

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## **INDEPENDENT AUDITORS' REPORT**

Marriott Marquis—Chicago  
Metropolitan Pier and Exposition Authority  
Chicago, Illinois

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

We have audited the accompanying financial statements of Marriott Marquis—Chicago (accounts maintained by Marriott International, Inc) (the "Hotel"), a hotel owned by Metropolitan Pier and Exposition Authority (the "Owner"), which comprise the statements of assets, liabilities and control as of June 30, 2020 and 2019, and the related statements of revenues and expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

Management of Marriott International, Inc ("Marriott") is responsible for the preparation and fair presentation of these financial statements in accordance with section 8.4 (d) of the management agreement dated June 11, 2014, between Marriott and the Owner (the "Management Agreement"), as described in Note 1 to the financial statements. Management is also responsible for 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hotel'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 Hotel's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the statements of assets, liabilities and control of Marriott Marquis—Chicago (accounts maintained by Marriott International, Inc) as of June 30, 2020 and 2019, and the related statements of revenues and expenses and cash flows for the years then ended in accordance with the financial reporting provisions of the Management Agreement referred to above and in Note 1.

## **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared by Marriott on the basis of financial reporting provisions of the Management Agreement, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Report on Supplementary Information**

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

## **Restriction of Use**

Our report is intended solely for the information and use of the Owner and Marriott and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

September 15, 2020

**MARRIOTT MARQUIS—CHICAGO**  
**(Accounts Maintained by Marriott International)**

**STATEMENTS OF ASSETS, LIABILITIES AND CONTROL**  
**AS OF JUNE 30, 2020 AND 2019**

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	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
CASH and CASH EQUIVALENTS	\$ 11,595,428	\$ 7,942,493
ACCOUNTS RECEIVABLE—Net	1,999,532	7,404,370
INVENTORIES	368,652	388,498
PREPAID EXPENSES	<u>411,785</u>	<u>544,941</u>
TOTAL ASSETS	<u>\$ 14,375,397</u>	<u>\$ 16,280,302</u>
<b>LIABILITIES AND CONTROL</b>		
ACCOUNTS PAYABLE	\$ 1,131,908	\$ 6,002,549
ADVANCE DEPOSITS	490,921	2,167,718
DUE TO MARRIOTT INTERNATIONAL	47,583	743,674
OTHER LIABILITIES—Deferred revenues	<u>1,686,743</u>	<u>345,869</u>
Total liabilities	3,357,155	9,259,810
CONTROL	<u>11,018,242</u>	<u>7,020,492</u>
TOTAL LIABILITIES AND CONTROL	<u>\$ 14,375,397</u>	<u>\$ 16,280,302</u>

See notes to financial statements.

**MARRIOTT MARQUIS—CHICAGO**  
**(Accounts Maintained by Marriott International)**

**STATEMENTS OF REVENUES AND EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
REVENUE:		
Rooms	\$ 37,458,607	\$ 58,666,580
Food and beverage	24,476,639	36,448,803
Other income	<u>2,308,745</u>	<u>2,640,165</u>
Total revenue	<u>64,243,991</u>	<u>97,755,548</u>
DEPARTMENTAL EXPENSES:		
Rooms	11,535,757	15,814,441
Food and beverage	<u>18,894,069</u>	<u>23,558,037</u>
Total departmental expenses	<u>30,429,826</u>	<u>39,372,478</u>
Total departmental income—net	<u>33,814,165</u>	<u>58,383,070</u>
UNDISTRIBUTED OPERATING EXPENSES:		
Administrative and general	6,701,479	7,298,174
Information and telecom systems	1,956,440	2,579,983
Sales and marketing	6,965,413	7,588,750
Property operation and maintenance	3,835,560	4,284,582
Utilities	<u>1,590,471</u>	<u>2,022,787</u>
Total undistributed operating expenses	<u>21,049,363</u>	<u>23,774,276</u>
GROSS OPERATING PROFIT	<u>12,764,802</u>	<u>34,608,794</u>
BASIC MANAGEMENT FEES	<u>1,927,320</u>	<u>2,932,666</u>
Total management fees	<u>1,927,320</u>	<u>2,932,666</u>
INCOME BEFORE FIXED CHARGES and INSURANCE	<u>10,837,482</u>	<u>31,676,128</u>
FIXED CHARGES	183,759	22,353
INSURANCE	<u>508,974</u>	<u>620,260</u>
Total fixed charges and insurance	<u>692,733</u>	<u>642,613</u>
NET OPERATING INCOME	10,144,749	31,033,515
LESS REPLACEMENT RESERVES (Note 3)	<u>2,511,087</u>	<u>3,910,222</u>
ADJUSTED NET OPERATING INCOME	<u>\$ 7,633,662</u>	<u>\$ 27,123,293</u>

See notes to financial statements.

**MARRIOTT MARQUIS—CHICAGO**  
**(Accounts Maintained by Marriott Corporation)**

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Adjusted net operating income	\$ 7,633,662	\$ 27,123,293
Changes in assets and liabilities:		
Accounts receivable	5,404,838	(893,836)
Inventories	19,846	(70,144)
Prepaid expenses	133,156	(232,362)
Due to Marriott International	(696,091)	1,306,996
Accounts payable	(4,870,641)	(262,295)
Advance deposits	(1,676,797)	1,665,949
Other liabilities	<u>1,340,874</u>	<u>(19,990)</u>
Net cash provided by operating activities	<u>7,288,847</u>	<u>28,617,611</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Provision for replacement of and additions to furnishings and equipment	<u>2,400,822</u>	<u>4,029,186</u>
Net cash provided by investing activities	<u>2,400,822</u>	<u>4,029,186</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions by Owner	78,400,319	91,627,004
Distributions to Owner	<u>(84,437,053)</u>	<u>(121,100,723)</u>
Net cash used in financing activities	<u>(6,036,734)</u>	<u>(29,473,719)</u>
INCREASE IN CASH	3,652,935	3,173,078
CASH—Beginning of year	<u>7,942,493</u>	<u>4,769,415</u>
CASH—End of year	<u>\$ 11,595,428</u>	<u>\$ 7,942,493</u>

See notes to financial statements.

# MARRIOTT MARQUIS—CHICAGO

## (Accounts Maintained by Marriott International)

### NOTES TO FINANCIAL STATEMENTS

#### AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Financial Statements**—The accompanying financial statements have been prepared pursuant to the provisions of the Management Agreement, dated June 11, 2014, as amended (the “Management Agreement”), between Marriott International (“Marriott”) and the Metropolitan Pier and Exposition Authority, a political subdivision of the State of Illinois, unit of local government, body politic, and municipal corporation (the “Owner”). The Owner has a 100% ownership interest in Marriott Marquis—Chicago (the “Hotel”). Accordingly, the statements of assets, liabilities and control do not include all of the assets and liabilities of the Owner, but only those assets and liabilities carried on the books and records of the Hotel, which are maintained by the employees of Marriott. Assets and liabilities not reflected herein may include, but are not limited to, property, buildings, furniture, and equipment and mortgage debt. In addition, the statements of revenues and expenses do not include depreciation or interest expense, property taxes, or any expenses paid directly by the Owner, except as noted. However, the statements of revenues and expenses do include the current year provision adjustment for replacement of and additions to furnishings and equipment calculated in accordance with the Management Agreement. The Management Agreement expires on September 10, 2027.

**Description of Business**—The Hotel is a 1,205-room convention hotel located in Chicago, Illinois. Marriott manages the Hotel under the Management Agreement with the Owner.

**COVID-19 Pandemic**—On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus (“COVID-19”) as a pandemic in the face of the global spread of the virus. The COVID-19 pandemic has dramatically altered the behavior of businesses and people in a manner that is having negative effects on global and local economies. Stock markets in the U.S. and globally, have seen significant declines and volatility attributed to concerns over COVID-19. These adverse impacts have intensified and continue to evolve within the United States.

On March 28th, 2020, Marriott ceased operations through the date the financial statements were issued as the business at MPEA related to conventions were not deemed essential by the City of Chicago. As such, revenues have seen a significant decline in the fourth quarter of 2020.

**Use of Estimates**—The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the statements of assets, liabilities and control date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumption include the valuation of the Hotel’s allowance for doubtful accounts.

**Cash and Cash Equivalents**—Cash and cash equivalents generally includes cash on hand through house banks, accounts maintained with financial institutions, and demand deposits.

**Accounts Receivable—Net**—Accounts receivable comprise billed but uncollected amounts due from guests and other charges. Accounts receivable are recorded at management’s estimate of the amounts that will ultimately be collected. The Hotel provides for an allowance for doubtful accounts of \$115,804 and \$113,707 at June 30, 2020 and 2019, respectively, which is based on 3% of rolling twelve-month non-credit card receivables.

**Inventories**—Inventories, consisting primarily of food and beverage, are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

**Due to Marriott**—As further discussed in the Schedule of Chain Service Fees with Marriott International Corporation and its Affiliates, the Hotel incurs certain charges for services, programs, labor, employment benefits, and other allocated costs provided by Marriott in addition to the management fees earned by Marriott for the management of the Hotel. Such charges are recorded as incurred. As of June 30, 2020 and 2019, the balances reflected are Due to Marriott for charges incurred but not yet paid as of the respective dates.

**Advance Deposits**—Advance deposits represent deposits for room, food and beverage, and other revenues received prior to services being performed.

**Revenue Recognition**—Revenue primarily consists of room rentals as well as food and beverage revenues from convention business and meetings at the Hotel. In addition, revenue consists of transient bookings, cancellation and attrition collected from groups along with miscellaneous income from package room. These revenues are considered earned when the services are provided. The Hotel collects sales, use, occupancy, and similar taxes, which are presented on a net basis (excluded from revenue) on the statements of revenue and expenses.

**Other Liabilities/Deferred Revenues**—Attrition and cancellation fees are recognized as revenue once payment has been received by the Hotel. Until that time, the balance including applicable taxes is treated as a liability on the Hotel’s balance sheet. In some cases, concessions are made with groups to allow for the collected attrition or cancellation to be used as a deposit for a future booking if a contract is signed within a specified window. In these cases, the collected attrition or cancellation balance is stored as a liability until a contract is signed or the window of time has expired. When the rebooking window expires without a signed contract, the Hotel recognizes the balance as revenue.

**Replacement Reserves**—Replacement reserves are the Owner investment expense for contributions towards the escrow bank account used for the replacement of furniture, fixtures, and equipment (FF&E). The amount contributed is a set percentage of the Hotel’s total revenues as dictated in the Management Agreement with the Owner.

**Expenses**—Costs are expensed as incurred.

## 2. RELATED PARTIES

Management fees are calculated in accordance with the terms of the Management Agreement with the Owner. The Basic Fee is \$1,927,320 and \$2,932,666 for the years ended June 30, 2020 and 2019, respectively.

The Incentive Fee shall be earned in the event the Hotel satisfies an annual Incentive Fee Revenue per Available Room (RevPar) Test, which is 90% of the numerical average of the Achieved RevPAR for the Comparable Hotels. Marriott shall receive 0.75% of the Gross Receipts for such Fiscal Year. The Incentive Fee was \$0 for the years ended June 30, 2020 and 2019, because the Hotel did not meet the requirements for the annual RevPAR test.

The Hotel incurred charges for services, programs, and allocated costs (reimbursements) from Marriott and certain of its subsidiaries and affiliates for the years ended June 30, 2020 and 2019, of \$745,069 and \$1,163,352, respectively. These expenses are included in the undistributed operating expenses in the Statements of Revenues and Expenses. Additionally, the Hotel reimburses Marriott for salary, related benefits, and employment costs of Marriott employees who work for the Hotel, which were \$27,396,309 and \$34,133,393 for the years ended June 30, 2020 and 2019, respectively.

### 3. REPLACEMENT RESERVES

The Management Agreement requires that a fund for replacement of and additions to furnishings and equipment (the "Fund") be established. A separate interest-bearing bank account is maintained for this Fund, which is recorded on the Hotel's books and records. Interest earned on the Fund is recorded on the hotels book as part of the Fund. The annual provision for the Fund, which is charged in the calculation of adjusted net operating income, is calculated as 4% of the Hotel's gross receipts, as defined in the Management Agreement and is reported within the Statements of Revenues and Expenses.

During 2020, due to the COVID-19 pandemic impact, both Marriott and the Owner agreed to relieve owner's obligation to fund the 4% provision for March, April, May and June 2020. Therefore, the annual reserve contribution recorded below is \$58,672 less than 4% of gross receipts annually.

For the years ended June 30, 2020 and 2019, the provision is computed as follows:

	<b>2020</b>	<b>2019</b>
Gross receipts—as defined	\$ 64,243,991	\$ 97,755,548
Reserve provision rate	<u>3.9 %</u>	<u>4.0 %</u>
Total provision for replacement reserves	<u>\$ 2,511,087</u>	<u>\$ 3,910,222</u>

A summary of activity in the Fund for the years ended June 30, 2020 and 2019, is as follows:

	<b>2020</b>	<b>2019</b>
Balance—beginning of year	\$ 6,425,638	\$ 2,396,453
Provision for the year	2,511,087	3,910,222
Interest income	89,478	88,127
Furnishings and equipment expenditures	<u>(199,742)</u>	<u>30,837</u>
Balance—end of year	<u>\$ 8,826,461</u>	<u>\$ 6,425,638</u>

#### 4. CONTROL

Activity in the Owner's control account for the years ended June 30, 2020 and 2019, is as follows:

	2020	2019
Balance—beginning of year	\$ 7,020,491	\$ 5,341,732
Adjusted net operating income	7,633,662	27,123,293
Contributions from Owner	78,400,319	91,627,004
Distributions to Owner	(84,437,053)	(121,100,723)
Replacements of and additions to furnishings and equipment purchased on behalf of Owner	(199,742)	30,837
Provision for replacement of and additions to furnishings and equipment	2,511,087	3,910,222
Interest income	<u>89,478</u>	<u>88,126</u>
Balance—end of year	<u>\$ 11,018,242</u>	<u>\$ 7,020,491</u>

#### 5. COMMITMENTS AND CONTINGENCIES

The Hotel is involved in various claims and legal actions arising in the ordinary course of business. The outcome of these matters are not expected to have a material adverse effect on the Hotel's assets, liabilities and control, revenues and expenses, or cash flows.

#### 6. SUBSEQUENT EVENTS

From June 30, 2020, through September 15, 2020, the date through which management evaluated subsequent events and on which date the financial statements were available to be issued, the Hotel did not identify any subsequent events requiring adjustment or disclosure.

As of the date the financial statements were available to be issued, the Hotel has reported declined operations. The Hotel does not anticipate any events until January 2021 at the earliest given Governor Pritzker's restrictions on large gatherings.

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## **SUPPLEMENTARY INFORMATION**

**MARRIOTT MARQUIS—CHICAGO**  
**(Accounts Maintained by Marriott International)**

**SCHEDULE OF CHAIN SERVICE FEES WITH MARRIOTT INTERNATIONAL AND ITS AFFILIATES**  
**AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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Under the terms of the Agreement between Marriott and the Owner, the Hotel is charged for its equitably allocable share of the costs associated with providing the Chain Services. Chain Services as defined in the Management Agreement shall mean: (i) the general categories of services listed in Exhibit C-1, and (ii) such additional central programs or services as may, from time to time, be furnished for the benefit of the Brand Hotels or in substitution for services now performed at individual hotels that Manager determines can be provided more efficiently and economically on a system basis. Below are the Chain Services, listed in Exhibit C-1, for the years ended June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
National sales office services	\$ 215,733	\$ 333,263
Central advertising and promotion	253,248	380,353
Marriott computer payroll and accounting services	155,732	201,926
Central training services, career development, and relocation of management personnel	120,356	110,630
Marriott national reservations system	<u>-</u>	<u>137,181</u>
Total chain services fees	<u>\$ 745,069</u>	<u>\$ 1,163,352</u>

Additionally, the Hotel reimburses Marriott for salary, related benefits, employment costs, and “Direct Deductions” which are primarily operating expenses relating to a system or program performed for the Hotel by or through Manager or one of its Related Persons or Manager Affiliates.