Special-Purpose Financial Statements (Modified Cash Basis)

Illinois International Port District
Years Ended December 31, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Illinois International Port District

Special-Purpose Financial Statements
(Modified Cash Basis)

Years Ended December 31, 2013 and 2012

Contents

Ernst & Young LLP
155 North Wacker Drive
Chicago, IL 60606-1787

Tel: +1 312 879 2000
Fax: +1 312 879 4000
ey.com

Report of Independent Auditors

The Board of Directors
Illinois International Port District

We have audited the accompanying special-purpose financial statements of the Illinois International Port District, which comprise the statements of assets, liabilities, accumulated other comprehensive loss, and fund balance (modified cash basis) as of December 31, 2013 and 2012, and the related statements of revenues collected, expenses, and changes in fund balance (modified cash basis); comprehensive loss (modified cash basis); and cash flows (modified cash basis) for the years then ended, and the related notes to the special-purpose financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in conformity with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting described in Note 1 is an acceptable basis for the preparation of the financial statements in the circumstances. Management also is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 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 opinion.

Opinion

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the assets, liabilities, accumulated other comprehensive loss, and fund balance of the Illinois International Port District at December 31, 2013 and 2012, and its revenue collected, expenses incurred, and its cash flows during the years then ended on the basis of accounting described in Note 1.

Use of Special-Purpose Framework – Modified Cash Basis of Accounting

As described in Note 1 to the special-purpose financial statements, the financial statements have been prepared on the modified cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended solely for the information and use of U.S. Bank and the Board of Directors of the Illinois International Port District and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

May 20, 2014

Illinois International Port District

Statements of Assets, Liabilities, Accumulated Other Comprehensive Loss, and Fund Balance
(Modified Cash Basis)

	December 31	
Assets	**2013**	**2012**
Current assets:		
Cash and cash equivalents	**$ 4,468,680**	$ 3,823,118
Prepaid expenses	**245,641**	283,520
Inventory	**–**	25,000
Total current assets	**4,714,321**	4,131,638
Property and equipment:		
Land and land improvements	**33,474,718**	33,474,718
Buildings and improvements	**16,409,766**	16,409,766
Equipment	**3,723,426**	3,723,426
Total property and equipment	**53,607,910**	53,607,910
Less: allowance for depreciation	**(10,821,910)**	(10,252,323)
	42,786,000	43,355,587
Deferred financing costs, net of accumulated amortization of $114,625 in 2013 and $104,125 in 2012	**95,375**	105,875
Total assets	**$ 47,595,696**	$ 47,593,100
Liabilities and fund balance		
Current liabilities:		
Accounts payable	**$ 206,469**	$ 417,852
Accrued expenses	**165,445**	146,397
Total current liabilities	**371,914**	564,249
Accrued pension benefits	**7,069,615**	6,525,315
Lease deposits by tenants	**156,830**	156,830
Long-term debt	**15,000,000**	15,000,000
Loan payable	**14,968,090**	14,968,090
Total liabilities	**37,566,449**	37,214,484
Accumulated other comprehensive loss	**(2,254,858)**	(2,387,488)
Fund balance	**12,284,105**	12,766,104
Total liabilities and fund balance	**$ 47,595,696**	$ 47,593,100

See accompanying notes.

Illinois International Port District

Statements of Revenues Collected, Expenses, and Changes in Fund Balance (Modified Cash Basis)

	Year Ended December 31	
	2013	2012
Revenues from Port facilities:		
Transit sheds and warehouses	**$ 2,185,294**	$ 2,079,715
Dockage and wharfage	**469,952**	449,136
Land leases	**1,880,328**	1,602,175
Licenses and fees	**299,416**	275,491
Other	**276,777**	181,189
Revenues from Harborside:		
Golf fees, net of amusement tax	**–**	2,513,577
Other golf-related revenues	**150,000**	776,537
Total revenues	**5,261,767**	7,877,820
Port and Harborside facility maintenance and operating expenses:		
Board members' compensation	**201,667**	219,990
Salaries and benefits	**1,470,427**	1,543,586
Insurance and security	**948,617**	1,132,868
Repairs, maintenance, and facility improvements	**552,533**	3,075,007
Marketing, advertising, and promotion	**41,763**	70,667
Office expenses	**95,317**	239,888
Utilities	**217,778**	358,890
Legal fees	**838,310**	466,294
Other professional fees	**427,256**	308,906
Cost of merchandise	**–**	251,020
Depreciation and amortization	**569,587**	581,453
Total expenses	**5,363,255**	8,248,568
Operating loss	**(101,488)**	(370,748)
Interest income	**4,938**	23,128
Interest expense	**(385,449)**	(165,686)
Net loss	**(481,999)**	(513,306)
Fund balance, beginning of year	**12,766,104**	13,279,410
Fund balance, end of year	**$ 12,284,105**	$ 12,766,104

See accompanying notes.

Illinois International Port District

Statements of Comprehensive Loss
(Modified Cash Basis)

	Year Ended December 31	
	2013	2012
Net loss	**$ (481,999)**	$ (513,306)
Other comprehensive income (loss):		
Minimum pension liability adjustment	**132,630**	151,272
Comprehensive loss	**$ (349,369)**	$ (362,034)

See accompanying notes.

Illinois International Port District

Statements of Cash Flows
(Modified Cash Basis)

	Year Ended December 31	
	2013	2012
Operating activities		
Net loss	**$ (481,999)**	$ (513,306)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	**569,587**	581,453
Amortization of deferred financing costs	**10,500**	10,500
Changes in pension assets and liabilities	**676,930**	501,687
Changes in operating assets and liabilities:		
Prepaid expenses	**37,879**	(18,465)
Inventory	**25,000**	89,945
Accounts payable, other accrued expenses, and lease deposits by tenants	**(192,335)**	285,548
Net cash provided by operating activities	**645,562**	937,362
Investing activities		
Purchase of property and equipment	**–**	(34,065)
Net cash used in investing activities	**–**	(34,065)
Financing activities		
Contributed capital	**–**	–
Net cash provided by financing activities	**–**	–
Net increase in cash and cash equivalents	**645,562**	903,297
Cash and cash equivalents, beginning of year	**3,823,118**	2,919,821
Cash and cash equivalents, end of year	**$ 4,468,680**	$ 3,823,118

See accompanying notes.

1. Summary of Significant Accounting Policies

The Illinois International Port District (the Port District or the Port) is a municipal corporation created by act of the Legislature of the State of Illinois, approved June 6, 1951. The Port District, which has no stockholders, is administered by a nine-member Board of Directors. The Board members are appointed, five by the mayor of the City of Chicago and four by the governor of the State of Illinois. The Port District finances its operating costs and debt service principally from proceeds generated by its own operations. The Port District operates as a lessor of facilities primarily for maritime operations, which include storage facilities, dockage, and wharfage. The Port District also owns a golf facility at Harborside International Golf Course (Harborside). In December of 2012, the Port District entered into a contract with Kemper Sports Management to manage all aspects of the Harborside golf operations. Beginning in 2013 and for the next ten years, the Port District will receive a fee from Kemper Sports Management based on a percentage of the profits in lieu of receiving revenue from golf fees and incurring expenses related to golf management.

Basis of Accounting

The Port District uses an enterprise fund to record transactions and report its financial position and results of operations. The modified cash basis of accounting is used for both budget and actual reporting purposes and consists of recognizing revenue when received (i.e., cash basis), rather than when earned, and recognizing expenses as incurred (i.e., accrual basis, including the accrual of pension costs). As described below, the basis of accounting also includes capitalizing assets and depreciating these assets over their useful lives or expensing them as the assets are consumed. The financial statement presentation and disclosures generally follow the principles of the Financial Accounting Standards Board (FASB), which is not in accordance with generally accepted accounting principles, which would be the principles of the Governmental Accounting Standards Board (GASB) for the Port District. The pension liability is also reported in accordance with the FASB, which differs from what would be recorded under generally accepted accounting principles. Due to the limited use of these financial statements and the nature of the Port's operations noted above, certain disclosure requirements and the use of the direct cash flow method set forth by *Government Accounting Standards* are not included in these financial statements because the additional information is not considered useful to the users of the financial statements.

Events and transactions occurring through May 20, 2014, the date the financial statements were available to be issued, have been evaluated by management and, when appropriate, recognized or disclosed in the financial statements.

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Port considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Cash and cash equivalents include $3,273,508 and $2,801,962 at December 31, 2013 and 2012, respectively, that is included in a sinking bond fund and thus is restricted as to its use.

Property and Equipment

Property and equipment are stated on the basis of cost and are depreciated when such assets are placed into service. Infrastructure expenditures are capitalized into land and land improvements, with subsequent repairs or maintenance of the infrastructure expensed as incurred. Land and land improvements are not depreciated.

Depreciation is computed on the straight-line method, and the following lives have been assigned:

Buildings and improvements	30 years
Equipment	5 years

Deferred Financing Costs

Deferred financing costs related to the term loan are amortized on a straight-line basis over the term of the loan, which approximates the interest method.

Advertising Costs

Advertising costs are expensed as incurred.

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Port District is a municipal corporation created by act of the Legislature of the State of Illinois and is not subject to tax under present income tax laws. The Port District agreed with the City of Chicago to pay a 9% amusement tax on golf revenues at Harborside. The Port District paid $0 and $189,036 in amusement tax in 2013 and 2012, respectively. Beginning in 2013, Kemper Sports Management is responsible for the payment of the amusement tax. The payment in 2012 of the amusement tax was recorded as a reduction of golf fee revenues.

Use of Estimates

The preparation of financial statements in conformity with the basis of accounting described in Note 1 requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Loan Payable

By statute of the State of Illinois, pursuant to a contract with the Capital Development Board of the State of Illinois, the Port District received $14,968,090 of funds authorized for the acquisition and development of a containerization facility known as Iroquois Landing in 1981. Under the terms of the contract, the Port District is to repay the funds received by remitting not more than 20% of the gross receipts and limited to not less than 20% of net profits attributable to Iroquois Landing operations. The indebtedness is non-interest bearing, and there is no defined maturity. Iroquois Landing opened for use during April 1981. No payments have been made through December 31, 2013, as Iroquois Landing has not achieved net profit to date.

3. Long-Term Debt

On January 30, 2003, the Port District entered into a $15,000,000 Variable Rate Revenue Refunding Bond, Series 2003 (the Variable Bond Agreement). The Variable Bond Agreement is by and among the Port District, as borrower; U.S. Bank, as trustee and letter-of-credit provider; and Fifth Third Securities, as underwriter and remarketer. Park National Bank was the original lender. Under the loan agreement, the Port District makes only interest payments each year. The variable rate loan adjusts weekly based on the Bond Market Association Municipal Swap Index (BMA) plus related fees of 2.35% and 0.85% in 2013 and 2012, respectively. The BMA was 0.05% and 0.13% on December 31, 2013 and 2012, respectively. The bonds mature on January 1, 2023.

The assets of the Port District and the revenues to be derived from the Port District's operations have been pledged as security for the Variable Bond Agreement.

The interest paid in 2013 and 2012 was $376,139 and $154,786, respectively.

At December 31, 2013, the minimum sinking fund payment requirements by year were as follows:

2014	$ 389,396
2015	406,510
2016	424,377
2017	441,705
2018	462,443
	$ 2,124,431

4. Operating Lease

The Port District entered into a 44-month golf cart lease in 2010. Six monthly payments of $19,520 are made each year from May through October. Rent expense in 2012 was $117,120. On January 31, 2013, this lease was assumed by Kemper Sports Management.

5. Minimum Future Rental Incomes

At December 31, 2013, the approximate minimum future rental incomes for storage and warehouse facilities from noncancelable operating leases by year were as follows:

2014	$ 2,894,000
2015	2,602,000
2016	2,410,000
2017	2,219,000
2018	2,114,000
	$ 12,239,000

At December 31, 2013, the approximate cost and accumulated depreciation of leased storage and warehouse facilities are as follows:

Land and land improvements	$ 15,669,790
Buildings and improvements	9,688,036
	25,357,826
Less accumulated depreciation	(3,672,027)
	$ 21,685,799

6. Pension Plan

The Port District has a noncontributory pension plan covering all eligible employees. Because the Port District pension plan qualifies as a governmental plan, it is exempt from the funding provisions of the Employee Retirement Income Security Act, as amended. The majority of the plan's assets consist of debt and equity investments.

The benefit formula is 4% of final average monthly pay multiplied by years of participation up to 20 years. Normal retirement is age 60 with five years of service.

The investment objective of the plan is to ensure, over the long-term life of the plan, an adequate level of assets to fund the benefits to the participants at the time they are payable. In meeting this objective, the Port District seeks to achieve a high level of total investment return consistent with a prudent level of portfolio risk. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Port

6. Pension Plan (continued)

District has separated the financial instruments into two categories: marketable equity securities and corporate and municipal bonds, which are all rated A or higher by Moody's. These assets and liabilities are all valued based on the market approach that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The Port District classifies its equity securities as Level 1 based upon quoted prices in active markets. Corporate and municipal bonds are classified as Level 2 based upon the other than quoted prices with observable market data. The Port District uses a third-party provider to determine fair values of its corporate and municipal bonds. The third-party provider receives market prices for each corporate or municipal bond from a variety of industry-standard data providers as well as recent trade activity. The type of instruments valued based upon the observable market data include U.S. government-sponsored enterprise (agency) debt obligations, Federal Deposit Insurance Corporation (FDIC)-backed corporate debt obligations, investment-grade corporate bonds, and state and municipal debt obligations. The fair value of the Port's plan assets as of December 31, 2013 and 2012, by asset category is as follows:

	Total	Level 1	Level 2	Level 3
2013				
Cash or money market fund	**$ 343,154**	**$ 343,154**	**$ –**	**$ –**
Equity securities	**1,649,673**	**1,649,673**	**–**	**–**
Corporate and municipal bonds	**1,054,320**	**–**	**1,054,320**	**–**
Total investments	**$ 3,047,147**	**$ 1,992,827**	**$ 1,054,320**	**$ –**
2012				
Cash or money market fund	$ 655,193	$ 655,193	$ –	$ –
Equity securities	1,175,052	1,175,052	–	–
Corporate and municipal bonds	1,048,022	–	1,048,022	–
Total investments	$ 2,878,267	$ 1,830,245	$ 1,048,022	$ –

6. Pension Plan (continued)

The Port's asset mix as of December 31, 2013 and 2012, and target allocation are as follows:

	2013	2012	Target %
Corporate and government bonds	**35%**	36%	50%
Cash and cash equivalents	**11**	23	10
Equity securities	**54**	41	40
	100%	100%	100%

Balances at December 31, 2013 and 2012, were as follows:

	2013	2012
Accrued pension liability	**$ 7,069,615**	$ 6,525,315
Accumulated other comprehensive loss	**2,254,858**	2,387,488

Included in accumulated other comprehensive loss at December 31, 2013 and 2012, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service costs of $647,139 and $747,537, respectively, and unrecognized actuarial losses of $1,607,719 and $1,639,951, respectively. The Port District expects to amortize $87,000 of prior service costs and $218,000 of actuarial net losses in 2014.

6. Pension Plan (continued)

The reconciliation of the beginning and ending balances of the projected benefit obligation, the fair value of the plan's assets for the years ended December 31, and the accumulated benefit obligation at December 31, are as follows:

	2013	2012
Projected benefit obligation:		
Beginning of year	**$ (9,403,582)**	$ (8,887,266)
Service cost	**(224,652)**	(220,685)
Interest cost	**(538,416)**	(525,823)
Actuarial gain (loss)	**280,162**	(16,921)
Benefits paid	**311,057**	247,113
Assumption change	**(541,331)**	–
End of year	**(10,116,762)**	(9,403,582)
Fair value of plan assets:		
Beginning of year	**2,878,267**	2,712,366
Actual return on assets	**328,482**	147,344
Employer contributions	**151,455**	265,670
Benefits paid	**(311,057)**	(247,113)
End of year	**3,047,147**	2,878,267
Funded status	**$ (7,069,615)**	$ (6,525,315)
Accumulated benefit obligation	**$ 9,978,738**	$ 8,969,910

The underfunded status of the plan of $7,069,615 at December 31, 2013, is recognized in the accompanying statements of assets, liabilities, accumulated other comprehensive loss, and fund balance as long-term accrued pension benefits. No plan assets are expected to be returned to the Port District during the year ended December 31, 2013.

6. Pension Plan (continued)

	2013	2012
Weighted average assumptions as of December 31:		
Discount rate	**5.50%**	6.00%
Expected return on plan assets	**7.00**	7.00
Rate of compensation increase	**2.00**	2.00

The Port District's expected return on plan assets was calculated considering the targeted allocation percentages of the Port District's asset mix in conjunction with the historical rate of return on the investment categories in the asset mix.

Significant activity affecting the benefit obligation is as follows:

	Year Ended December 31	
	2013	2012
Benefit cost	**$ 828,385**	$ 767,357
Benefits paid	**(311,057)**	(247,113)
Contributions made by the Port District	**151,455**	265,670

The Port District estimates it will contribute $350,000 to the plan in 2014. The Port District estimates that future benefit payments will be paid out over the next ten years as follows:

2014	$ 415,484
2015	604,278
2016	658,224
2017	671,224
2018	668,075
Thereafter	3,817,718
	$ 6,835,003

7. Revenue Bonds

In 2001, the Port District issued $8,500,000 of Series 2001 Port Revenue Bonds. This issuance provided financial assistance to a private-sector entity for the acquisition and construction of a bulk storage facility on land leased by the Port District. These bonds are secured by a right granted to the lender to sublease the bulk storage facility during the term of the land lease in the event of default.

Neither the Port District, the State of Illinois, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

At December 31, 2013 and 2012, the principal amount payable in the Series 2001 Port Revenue Bonds was $8,500,000.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ey.com