



Public Building Commission of Chicago

Financial Statements for the
Year Ended December 31, 2003 and 2002 and
Independent Auditors' Report

PUBLIC BUILDING COMMISSION OF CHICAGO

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Commissioners
Public Building Commission of Chicago:

We have audited the accompanying basic financial statements of the Public Building Commission of Chicago (the "Commission") as of December 31, 2003 and 2002 and for the years then ended. These financial statements are the responsibility of the Commission's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such basic financial statements present fairly, in all material respects, the financial position of the Public Building Commission of Chicago as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 4 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion or any other form of assurance on it.



May 24, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Public Building Commission of Chicago (the "Commission") provides the following narrative overview and analysis of the Commission's financial performance during the years ended December 31, 2003 and 2002. Please read it in conjunction with the Commission's financial statements, which follow this section.

INTRODUCTION

The Management's Discussion and Analysis ("MD&A") is an element of the reporting model adopted by the Governmental Accounting Standards Board in their Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* ("GASB 34"), issued June 1999; GASB Statement No. 37 ("GASB 37"), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and GASB Statement No. 38 ("GASB 38"), *Certain Financial Statement Note Disclosures*, issued in 2001.

The Commission adopted GASB 34, GASB 37 and GASB 38 during 2002. As a result the Commission's financial statements for the years ended December 31, 2003 and 2002 have been prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. The financial statements reflect that the Commission is operated under one enterprise fund.

OVERVIEW

The Commission was created in 1956 pursuant to Illinois legislation as an independent governmental unit responsible for building and renovating public buildings and facilities for local government branches and agencies in Chicago and Cook County. The Commission's organizing and client agencies include the City of Chicago, the County of Cook, the Chicago Park District, the Chicago Public Schools, the Metropolitan Water Reclamation District, the Cook County Forest Preserve District, the Chicago Public Library, the Chicago Transit Authority, and the City Colleges of Chicago.

The Commission's operating mission is to build functional, accessible and attractive public purpose facilities and to provide cost-efficient project management to its clients. The Commission's 11 member Board of Commissioners provides oversight and direction for the Commission's activities from land acquisition through the stages of project planning, design and construction. Additionally, the Commission serves as the owning and operating entity for the Richard J. Daley Center ("Daley Center"). The financial statements address the overall financial position and results of these activities and operations.

BASIC FINANCIAL STATEMENTS

Under GASB 34, an economic resources measurement focus and an accrual basis of accounting is used. Revenue is recognized when earned, which generally occurs as project construction expenses are incurred, and expenses are recognized when incurred. The Commission's basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. Notes to the basic financial statements are also included.

The Statement of Net Assets presents information on the assets and liabilities, with the difference reported as total net assets. This statement provides an indication of the assets available to the Commission for project construction, debt service and administrative operation. The Commission anticipates that assets for project development will fluctuate over time based on the capital programs of its client agencies.

Assets for project development are provided to the Commission directly by the client agencies or from Commission-issued long-term revenue bonds, which are supported by lease agreements with client agencies. Funding received and held by the Commission for project development in excess of expenditures is reported as Deferred Project Revenue. The capital assets of the Commission reflect its role as the owning and operating entity of the Daley Center. The Commission does not capitalize other facilities it builds for client agencies as the ownership of the facilities is transferred back to the client agencies upon completion of the projects or upon expiration of the facility leases between the Commission and client agencies.

The Statement of Revenues, Expenses and Changes in Net Assets reports the operating revenues and expenses and other revenue and expenses of the Commission for the year with the difference reported as the increase or decrease in net assets for the year. This statement provides an indication of the project development expenditures, the Daley Center operating expenses, Commission administrative operating expenses and interest expense. Project revenues are recognized to the extent of current project expenditures. Future principal and interest on bonds issued by the Commission are to be covered by future lease rental payments from its client agencies.

The Commission does not have authority to levy and collect taxes and relies on fees for project development services provided to client agencies and fixed lease administrative fees to fund its operation. The Commission is limited to providing its services to only governments and agencies. Therefore the Commission anticipates fluctuations in its operating revenues based on the volume of activity requested by client agencies. The Commission anticipates it will continue to serve a significant role in assisting client agencies in the development of new and enhanced public facilities.

The Statement of Cash Flows reports on cash and cash equivalent activities for the year resulting from operating activities, capital and related financing activities, and investing activities.

The Notes to the basic financial statements provide required disclosures and other information that are essential to a full understanding of the financial statements.

FINANCIAL INFORMATION

The assets of the Commission exceeded liabilities by approximately \$74.8 million at December 31, 2003. Of this amount, \$50.2 million is invested in capital assets and \$24.6 million is restricted for use by the Daley Center and for Commission operations. The Commission's total net assets decreased \$1 million and \$3 million, respectively, for the years ended December 31, 2003 and 2002. The decrease in net assets for the years ended December 31, 2003 and 2002 is primarily attributable to depreciation expense offset by other revenue in the form of fees for project development services, which are recognized upon completion of a project and are therefore anticipated to fluctuate from year to year.

Operating Revenues for 2003 and 2002 were \$347.3 million and \$301.7 million, respectively. Operating Expenses were \$324.2 and \$293.2 million, respectively. Both fluctuate based on the volume of construction activity as Operating Revenue includes Project Revenue, which is recognized to the extent of current Construction Costs. Operating Revenue additionally reflects an increase in Other Revenue in the form of fees from project development services recognized and increased Rental Income Lessees which is offset by Interest Expense. Investment income for 2003 and 2002 was \$6.3 million and \$15.9 million, respectively. The decrease is due to lower interest rates and decreases in cash balances held in investments during the year as a result of construction activity.

Summary of Condensed Financial Information at December 31, 2003 and 2002:

	2003	2002
Total assets	\$1,199,910,310	\$1,122,659,142
Total liabilities	<u>1,125,066,536</u>	<u>1,046,794,882</u>
Total net assets	<u>\$ 74,843,774</u>	<u>\$ 75,864,260</u>
Operating revenues	\$ 347,263,012	\$ 301,707,220
Operating expenses	324,192,624	293,170,995
Other income (expense)	<u>(24,090,874)</u>	<u>(11,557,591)</u>
Change in net assets	<u>\$ (1,020,486)</u>	<u>\$ (3,021,366)</u>

Capital Assets

At December 31, 2003, the Commission's \$50.2 million invested in capital assets is net of accumulated depreciation of \$62.3 million. The Commission had \$112.5 million of gross capital assets, including the \$11.7 million in land for the \$71.3 million Daley Center, \$27.8 million of building improvements to that structure as well as \$1.8 million of construction in process. During 2003, the Commission had capital additions of \$4 million, which consisted of building improvements for the Daley Center. The Commission's 2004 capital budget for the Daley Center authorizes up to \$1.8 million in capital expenditures. A summary of changes in capital assets is included in Note 3 to the financial statements.

Long-term Debt and Capital Leases Receivable

As of December 31, 2003 and 2002, the Commission had \$611 million and \$551 million, respectively, in debt outstanding. The Commission issued \$119,020,000 in Building Revenue Bonds (Series 2003). The proceeds from these bonds are being used for projects related to the Chicago Transit Authority.

As of December 31, 2003 and 2002, the Commission had \$600.4 million and \$549.3 million, respectively, in capital leases receivable. The increase in 2003 is due to the 2003 lease transaction with the Chicago Transit Authority.

REQUESTS FOR INFORMATION

This financial report is designed to provide the reader with a general overview of the Commission's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Chief Financial Officer at Richard J. Daley Center, 50 West Washington, Room 200, Chicago, Illinois 60602.

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PUBLIC BUILDING COMMISSION OF CHICAGO

STATEMENTS OF NET ASSETS DECEMBER 31, 2003 AND 2002

ASSETS	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents	\$ 303,677	\$ 1,389,691
Due from other governments	6,281,464	6,114,374
Due from other agencies	26,112,792	8,594,989
Other receivables	161,717	1,691,454
Other current assets	23,952	
Current portion of capital lease receivable	91,150,000	67,850,000
Total current assets	124,033,602	85,640,508
INVESTMENTS:		
United States Treasury obligations	49,081,978	68,451,580
Money market mutual funds	160,513,146	198,238,294
Repurchase agreements	216,277,666	181,734,535
Federal National Mortgage Association	87,953,250	
Federal Home Loan Mortgage Corporation		57,816,800
Total investments	513,826,040	506,241,209
CAPITAL LEASES RECEIVABLE	509,290,000	481,420,000
CAPITAL ASSETS (DALEY CENTER):		
Land	11,667,688	11,667,688
Building	71,276,903	71,276,903
Building improvements	27,813,594	25,494,520
Construction in progress	1,775,372	496,786
Accumulated depreciation	(62,336,713)	(59,578,472)
Total capital assets	50,196,844	49,357,425
OTHER ASSETS	2,563,824	-
TOTAL ASSETS	\$1,199,910,310	\$1,122,659,142

See notes to financial statements

LIABILITIES AND NET ASSETS	2003	2002
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 44,420,381	\$ 40,516,641
Interest payable	11,912,249	7,473,668
Retained on contracts	22,740,907	14,638,528
Arbitrage rebate		1,358,403
Deferred rental income	17,359,726	17,714,474
Current portion of deferred project revenue	7,534,525	22,343,600
Current portion of long-term debt	91,443,427	67,715,000
	<u>195,411,215</u>	<u>171,760,314</u>
NONCURRENT LIABILITIES:		
Funds held for future lease payments	249,624,955	305,691,972
Long-term debt	519,444,753	483,465,000
Other liabilities		272,323
Deferred project revenue	160,585,613	85,605,273
	<u>929,655,321</u>	<u>875,034,568</u>
Total noncurrent liabilities	<u>929,655,321</u>	<u>875,034,568</u>
Total liabilities	<u>1,125,066,536</u>	<u>1,046,794,882</u>
NET ASSETS:		
Invested in capital assets, net of related debt	50,196,844	49,357,425
Restricted—Daley Center	11,707,074	14,499,684
Restricted—Commission's operations	12,939,856	12,007,151
	<u>74,843,774</u>	<u>75,864,260</u>
Total net assets	<u>74,843,774</u>	<u>75,864,260</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,199,910,310</u>	<u>\$1,122,659,142</u>

See notes to financial statements.

PUBLIC BUILDING COMMISSION OF CHICAGO

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
OPERATING REVENUES:		
Project revenue	\$ 293,723,830	\$ 254,913,880
Rental income—lessees	33,313,363	28,424,778
Rental income—Daley Center	15,592,158	15,949,943
Other revenue	4,633,661	2,418,619
Total operating revenues	<u>347,263,012</u>	<u>301,707,220</u>
OPERATING EXPENSES:		
Construction costs	298,391,316	268,610,668
Maintenance and operations—Daley Center	15,337,119	15,483,102
Administrative expense	7,705,948	6,417,006
Depreciation expense	2,758,241	2,660,219
Total operating expenses	<u>324,192,624</u>	<u>293,170,995</u>
Operating income	<u>23,070,388</u>	<u>8,536,225</u>
OTHER INCOME (EXPENSE):		
Investment income	6,265,365	15,923,930
Other income	622,305	702,364
Interest expense	(30,978,544)	(28,183,885)
Total expenses	<u>(24,090,874)</u>	<u>(11,557,591)</u>
DECREASE IN NET ASSETS	<u>(1,020,486)</u>	<u>(3,021,366)</u>
NET ASSETS—Beginning of year	75,864,260	183,599,489
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING		<u>(104,713,863)</u>
NET ASSETS—Beginning of year	<u>75,864,260</u>	<u>78,885,626</u>
NET ASSETS—End of year	<u>\$ 74,843,774</u>	<u>\$ 75,864,260</u>

See notes to financial statements.

PUBLIC BUILDING COMMISSION OF CHICAGO

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
CASH FLOWS FROM (USED IN) FROM OPERATING ACTIVITIES:		
Received for projects	\$ 223,520,690	\$ 206,566,383
Received for rent payments	116,233,683	79,215,395
Payments for project construction and administration	<u>(309,724,539)</u>	<u>(301,200,646)</u>
Net cash flows from (used in) operating activities	<u>30,029,834</u>	<u>(15,418,868)</u>
CASH FLOWS FROM (USED IN) FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for capital acquisitions	(3,597,660)	(2,098,582)
Funds received from issuance of debt	127,788,535	
Payments made for issuance costs	(2,675,295)	
Principal paid on revenue bonds	(67,715,000)	(38,320,000)
Interest paid on revenue bonds	(27,786,895)	(30,473,554)
Funds provided for future lease payments	<u>(56,067,017)</u>	<u>94,309,688</u>
Net cash flows from (used in) financing activities	<u>(30,053,332)</u>	<u>23,417,552</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Change in investments	(7,584,831)	(24,179,801)
Investment income	6,035,826	15,923,930
Other investment income	<u>486,489</u>	<u>690,566</u>
Net cash flows (used in) investing activities	<u>(1,062,516)</u>	<u>(7,565,305)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,086,014)	433,379
CASH AND CASH EQUIVALENTS—Beginning of year	<u>1,389,691</u>	<u>956,312</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 303,677</u>	<u>\$ 1,389,691</u>
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Operating income	\$ 23,070,388	\$ 8,536,225
Adjustments to reconcile:		
Depreciation	2,758,241	2,660,219
Changes in assets and liabilities:		
Capitalized leases receivable	(51,170,000)	38,655,000
Other receivables	1,529,737	2,260,535
Other current assets	(23,952)	
Due from other governments	(167,090)	(2,739,296)
Due from other agencies	(17,517,803)	4,178,849
Accounts payable and accrued expenses	3,903,740	(8,121,486)
Retained on contracts	8,102,379	(2,576,091)
Deferred rent	(354,748)	(1,075,029)
Deferred revenue	60,171,265	(57,482,907)
Other liabilities	<u>(272,323)</u>	<u>285,113</u>
NET CASH FROM (USED IN) OPERATING ACTIVITIES	<u>\$ 30,029,834</u>	<u>\$ (15,418,868)</u>

See notes to financial statements.

PUBLIC BUILDING COMMISSION OF CHICAGO

NOTES TO BASIC FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorizing Legislation—The Public Building Commission of Chicago (the “Commission”), Cook County, Illinois is a municipal corporation and body politic created under the provisions of the Public Building Commission Act of the Illinois Revised Statutes (the “Act”), approved July 5, 1955, as amended. The Commission is authorized and empowered to construct, acquire, or enlarge public improvements, buildings, and facilities to be made available for use by governmental agencies and to issue bonds, which are payable solely from the revenues to be derived from the operation, management, and use of the buildings or other facilities by the Commission or pledged revenues. The Commission has no stockholders or equity holders, and all revenues of the projects shall be paid to the Treasurer of the Commission to be applied in accordance with the provisions of the respective bond resolutions and intergovernmental agreements.

The Act provides authority for the Commission to obtain permanent financing through the issuance of revenue bonds secured by leases with local governments or other users of facilities constructed or acquired by the Commission. The Act also provides authority for the Commission to obtain interim financing by issuing interim notes following the selection of an area or site for a requested project. The Commission has specific authority to accept donations, contributions, capital grants, or gifts.

Pursuant to the Act, the Board of Commissioners has 11 members: six members are appointed by the City of Chicago, and one member each is appointed by the following: Cook County, Chicago Board of Education, Chicago Park District, Metropolitan Water Reclamation District of Greater Chicago, and the Cook County Forest Preserve. The Chairman of the Commission is elected from among the members of the Board. The Mayor of the City of Chicago currently serves as the Chairman.

The accounting and reporting policies of the Commission conform to generally accepted accounting principles as applicable to governmental units in the United States of America. Following is a description of the more significant of these policies.

Reporting Entity—As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (“GASB”), the financial reporting entity consists of the 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. The accompanying financial statements present only the Commission (the primary government) since the Commission does not have any component units.

Adoption of New Accounting Standards—During fiscal year 2002, the Commission adopted GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*, an amendment to GASB Statements No. 21 and No. 34; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Basis of Presentation—The Commission applies all GASB pronouncements for the Commission’s proprietary funds, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The accounts of the Commission are organized on the basis of Fund Accounting. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. The Commission maintains the following fund type:

Proprietary Fund—Pursuant to the adoption of GASB 34, the Commission’s operations are accounted for in a single Enterprise Fund. Enterprise funds account for those operations financed and operated in a manner similar to private business enterprises. Under this method of accounting, an economic resources measurement focus and the accrual basis of accounting is used. Revenue is recognized when earned and expenses are recognized when incurred. The basic financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the Commission is funded from bond financed projects and reimbursement projects and payments from lessees. Operating expenses include construction costs, maintenance expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents—GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, requires the Commission to present a statement which classifies cash receipts and payments according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities. Cash and cash equivalents include cash on hand.

Investments—Investments consist primarily of government bond funds, treasury bills and notes and repurchase agreements. Investments with maturity of less than one year are carried at amortized cost plus accrued interest, which approximates fair value. All other investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Restricted investments at December 31, 2003 and 2002 consist of \$492,395,702 and \$483,423,347, respectively, for future capital construction and improvements related to Commission projects. Unrestricted investments at December 31, 2003 and 2002 consist of \$21,430,338 and \$22,817,862, respectively, for use by the Daley Center and for Commission operations.

Capital Leases Receivable—Capital leases receivable, discounted at the effective interest rate of each bond issue, are reflected as assets. The portion of the lease payments attributable to administrative and other period charges is not capitalized as a lease receivable. The corresponding revenue bonds are reflected as liabilities. The current portion of leases receivable at December 31, 2003 and 2002 is \$91,150,000 and \$67,850,000, respectively.

Capital Assets (Daley Center)—The Commission capitalizes assets that it owns and operates with a cost of more than \$1,000 and a useful life greater than one year. Capital assets are recorded at cost. Cost includes major expenditures for improvements and replacements, which extend useful lives or increase capacity and interest cost associated with significant capital additions. Depreciation of capital assets is computed using the straight-line method assuming the following useful lives:

	Years
Building	50
Building improvements	20
Furniture and fixtures	7
Equipment	3 to 5

The Picasso sculpture that stands on Daley Plaza is an artwork that is held for public exhibition and is to be preserved for future generations. The sculpture is not capitalized or depreciated as a part of the Commission’s capital assets.

Other Assets—Costs related to the issuance of the Series 2003 Revenue Bonds. The costs are held as a deferred asset and amortized over the life of the bond. Amortization is recognized as interest expense.

Compensated Absences—All salaried employees of the Commission are granted sick leave with pay at the rate of one working day for each month of service, up to a maximum accumulation of 175 days. In the event of termination, Commission employees are not reimbursed for accumulated sick leave.

All full-time employees of the Commission who have completed one year of service are entitled to vacation leave at varying amounts based on years of service. In the event of termination, an employee is reimbursed for accumulated vacation days up to a maximum accumulation of 40 days.

Long-Term Debt—Long-term debt is recognized as a liability. The total outstanding debt balance is classified as current and noncurrent liabilities based upon whether the amount is payable within a one-year period.

Funds Held for Future Lease Payments—Pursuant to the Bond Resolution for lease payments due under the lease for the 1999 Series C Bonds, the Commission established a trustee held Debt Service Account comprising the following two sub-accounts: (i) the Deposit Sub-Account; and (ii) the Payment Sub-Account. Grant revenues pledged from the Board of Education of the City of Chicago received from the State of Illinois and taxes shall be deposited in and transferred between these two Sub-Accounts in conjunction with debt service requirements.

Grant revenues are deposited by the Board of Education into the Deposit Sub-Account and are transferred to the Payment Sub-Account to meet annual debt service requirements subsequent to February 2002. These have been classified as Funds Held for Future Lease Payments. The last deposit into this account was made during 2002. Annual lease payments due from the Board of Education of the City of Chicago are to be offset by amounts held on deposit in the Payment Sub-Account. At the lease payment dates, amounts to reduce the capital lease receivable and to reflect rental income are recorded in the bond funds.

Deferred Project Revenue—The Commission receives funding for bond financed projects and reimbursement projects. Project revenue is recognized as construction costs for the projects are incurred. Amounts received but unspent as of the end of the year are included in deferred project revenue.

Deferred Rental Income—Annual lease rental payments are due on or before December 1 of each year. All rental payments received before December 31 which relate to the following year's administrative expenses and debt service are considered deferred rental income at December 31. Rental income is recognized in the year related administrative expenses and debt service is incurred.

Net Assets—Net assets invested in capital assets, net of related debt reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets. Net assets other than those invested in capital assets, net of related debt are considered to be restricted under the enabling legislation that established the limited specific purpose of the Commission.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

As provided by the respective bond resolutions, cash and investments of the Construction and Revenue Funds will be subject to a lien and charge in favor of the bondholders until paid out or transferred. Cash and investments from bond proceeds at December 31, 2003 and 2002 were in custody of the trustees.

Investments are authorized by the Public Funds Investment Act, the Bond Resolutions and the Commission's investment policy. The Commission's investments are limited to various instruments by the Indentures, restricted to one or more of the following:

- Bonds, notes, certificates of indebtedness, Treasury bills, or other securities guaranteed by the full faith and credit of the United States of America as to principal and interest,
- Certain bonds, notes, debentures or other similar obligations of the United States of America or its agencies,
- Short-term discount obligations issued by the Federal National Mortgage Association,
- Interest-bearing savings accounts, interest-bearing certificates of deposit, interest-bearing time deposits, or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act, and which deposits are insured by the Federal Deposit Insurance Corporation,
- Money market mutual funds registered under the Investment Company Act of 1940 (limited to obligations described in (a) and (b) above and to agreements to repurchase such obligations), and
- Repurchase agreements to acquire securities through banks or trust companies authorized to do business in the State of Illinois; these securities are to be held by a custodial bank, other than the seller of such securities, and must be a member of the Federal Reserve System. The Commission is required to maintain collateral of 102% of the value of the repurchase agreement.

At December 31, 2003 and 2002, the carrying amounts of the Commission's cash deposits were \$303,677 and \$1,389,691, respectively. The Commission's cash bank balances at December 31, 2003 and 2002 totaled \$556,558 and \$2,278,887, respectively, of which \$100,000 per bank was covered by FDIC insurance.

The Commission's investment balances are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Commission or its agent in the Commission's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Commission's name. Category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Commission's name.

	Category			December 31,
	1	2	3	2003
Federal National Mortgage Association	\$87,953,250			\$ 87,953,250
Repurchase agreements	216,277,666			216,277,666
U.S. Treasury obligations	49,081,978			49,081,978
Uncategorized:				
Money market mutual funds				<u>160,513,146</u>
Total				<u>\$ 513,826,040</u>

	Category			December 31,
	1	2	3	2002
Federal National Mortgage Association	\$57,816,800			\$ 57,816,800
Repurchase agreements	181,734,535			181,734,535
U.S. Treasury obligations	68,451,580			68,451,580
Uncategorized:				
Money market mutual funds				<u>198,238,294</u>
Total				<u>\$ 506,241,209</u>

All securities which have scheduled maturities within one year of the balance sheet date are recorded at amortized cost plus accrued interest, which approximates fair value. All other investments are carried at fair value (see Note 1). The Commission generally holds securities until maturity. An attempt is made within the construction funds to align scheduled maturities with the anticipated construction schedule of the underlying project. However, at times, certain securities are sold by the Commission prior to their scheduled maturities in order to meet construction financing requirements.

3. CAPITAL ASSETS (DALEY CENTER)

A summary of changes in capital assets follows:

	<u>Balance December 31, 2002</u>	<u>Additions, Transfers In, and Depreciation</u>	<u>Disposals, Adjustments, and Transfers Out</u>	<u>Balance December 31, 2003</u>
Land	\$ 11,667,688	\$ -	\$ -	\$ 11,667,688
Building	71,276,903			71,276,903
Building improvements	25,494,520	2,319,074		27,813,594
Construction in progress	<u>496,786</u>	<u>1,775,372</u>	<u>(496,786)</u>	<u>1,775,372</u>
	108,935,897	4,094,446	(496,786)	112,533,557
Accumulated depreciation	<u>(59,578,472)</u>	<u>(2,758,241)</u>	<u></u>	<u>(62,336,713)</u>
Total	<u>\$ 49,357,425</u>	<u>\$ 1,336,205</u>	<u>\$(496,786)</u>	<u>\$ 50,196,844</u>

4. REVENUE BONDS

The following summarizes long-term debt outstanding at December 31, 2003:

	<u>Balance December 31, 2002 (in 000's)</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2003 (in 000's)</u>
\$353,095,000 Series 1993A—Board of Education of the City of Chicago Buildings and Facilities—acquiring sites, constructing, and equipping buildings and facilities, 4.20% to 5.75%	\$108,385	\$ -	\$19,355	\$ 89,030
\$20,830,000 Series 1993B—Chicago Park District Park Sites and Facilities—design and constructing for the restoration of Soldier Field Stadium, 5.50% to 6.95% (taxable)	12,910		1,910	11,000
\$17,295,000 Series 1998A—Chicago Park District Park Sites and Facilities—building revenue refunding bonds (1993 C), 4.15% to 5.375%	17,295			17,295
\$114,480,000 Series 1999B—Board of Education of the City of Chicago Building and Facilities—building revenue refunding bonds (1993 A), 5.00% to 5.25%	114,480			114,480
\$316,255,000 Series 1999C—Board of Education of the City of Chicago Building and Facilities—acquiring sites, constructing, and equipping buildings and facilities, 4.50% to 5.50%	298,110		46,450	251,660
\$119,020,000 Series 2003—Chicago Transit Authority Building and Facilities—for construction of the CTA Headquarters, 5.00% to 5.25%	<u>-</u>	<u>119,020</u>	<u>-</u>	<u>119,020</u>
Total Revenue Bonds Outstanding at December 31, 2003	\$551,180	<u>\$119,020</u>	<u>\$67,715</u>	602,485
Premium				8,403
Less current portion	<u>(67,715)</u>			<u>(91,443)</u>
Noncurrent portion	<u>\$483,465</u>			<u>\$519,445</u>

Interest expense for 2003 and 2002 comprises \$32,225,477 and \$30,473,554, respectively, for debt service payments, and the reduction of the arbitrage liability of \$1,358,404 and \$2,289,669, respectively. Amortization of deferred issuance costs of \$111,471 is also included in interest expense for 2003. This results in a net interest expense of \$30,978,544 and \$28,183,885, respectively.

Security for Bonds—As provided by the bond resolutions, the bonds are secured by liens on the revenues derived from leases for the facilities but not by mortgages on the facilities. Under the lease agreements, the lessees are obligated to levy taxes to pay rentals which, together with any other rentals, fees, and charges for use of space in the facilities, will produce revenues at all times sufficient to pay the principal of and the interest on the bonds and maintain the accounts created by the bond resolutions. Title to the properties under such lease agreements will be conveyed to the lessee upon certification by the Secretary and Treasurer of the Commission that all principal, interest, premium, administrative, and other expenses with respect to such revenue bond issue have been paid in full.

Series of	Leases	Annual Rentals Due	
		From	To
1987 B	Community College District No. 508 ¹	1987	2006
1988 A	Community College District No. 508 ¹	1988	2007
1990 A	Board of Education of the City of Chicago ¹	1990	2019
1990 B	Board of Education of the City of Chicago ¹	1990	2014
1993 A	Board of Education of the City of Chicago ³	1993	2018
1993 B	Chicago Park District	1997	2007
1996	Community College District No. 508 ²	1997	2007
1998 A	Chicago Park District	1998	2012
1999 B	Board of Education of the City of Chicago	1999	2018
1999 C	Board of Education of the City of Chicago	2001	2005
2001	Board of Education of the City of Chicago ²	2001	2015
2001 A	Board of Education of the City of Chicago ²	2002	2018
2003 A	Chicago Transit Authority	2004	2023

¹ Principal and interest portion of lease has been defeased.

² Lease payments have been fully defeased.

³ A portion of principal and interest has been defeased from the 1999 B proceeds.

Except for the Series A of 1993 and Series B of 1999, the final bond principal payment is due in the year subsequent to the last rental payment.

Annual Requirements—The total of principal and interest due on bonds during the next five years and in subsequent five-year periods are as follows:

Year(s) Ending	Principal	Interest	Total
2004	\$ 91,005,000	\$ 32,468,580	\$ 123,473,580
2005	86,650,000	24,935,701	111,585,701
2006	125,540,000	19,246,430	144,786,430
2007	15,775,000	15,460,532	31,235,532
2008	17,280,000	14,594,466	31,874,466
2009-2013	102,820,000	58,962,715	161,782,715
2012-2018	120,165,000	30,266,775	150,431,775
2019-2023	43,250,000	5,907,563	49,157,563
Total	<u>\$ 602,485,000</u>	<u>\$ 201,842,762</u>	<u>\$ 804,327,762</u>

Defeased Debt—The Commission has refunded all or a portion of various bonds by depositing U.S. Government securities in irrevocable trusts to provide for all future debt service payments on old bonds. As a result, such bonds are considered to be defeased and the liability for these bonds has been removed from the balance sheet. As of December 31, 2003, the outstanding balances for refunded bonds are as follows:

	Amount Outstanding (in 000's)
1986A	\$ 26,550
1987A	400
1987B	59,695
1988A	52,140
1990A	247,750
1990B	12,445
1993A	111,400
1993C	16,770
1995A	10,010
Total	<u>\$ 537,160</u>

Arbitrage—In accordance with the Internal Revenue Code of 1986, as amended, the Commission is required to rebate excess investment earnings (as defined) to the Federal Government. At December 31, 2003, the Commission has estimated it has no liability pursuant to the arbitrage rebate regulations.

Series 2003 Bonds—Public Building Commission of Chicago Building Revenue Bonds, Series 2003 (Chicago Transit Authority) (\$119,020,000) were sold at a premium in March 2003. The bonds have interest rates ranging from 5.00% to 5.25% and maturity dates ranging from March 1, 2005 to March 1, 2023. Proceeds are to be used to pay the cost of issuance and the costs of preparing the land, constructing, and installing furniture and fixtures for a 12-story building to be used as the Chicago Transit Authority headquarters.

5. RETIREMENT PLAN

On June 21, 1995, the Board of Commissioners of the Commission approved the adoption of the Public Building Commission of Chicago Retirement Plan (the "Plan") for Commission employees meeting certain minimum age and service requirements. Amendments to the Plan were approved February 10, 1998 and made effective January 1, 1998. The Plan, as amended, is a defined contribution plan, which requires the Commission to make quarterly contributions to the Plan to equal an annualized amount of 7% of participants' salary. Participants in the Plan vest at a rate of 20% per year after three years, with 100% vesting after seven years from date of hire. Participants must make non-elective contributions, deducted from their compensation, up to 7% based on their annual salary. Certain employees of the Commission are eligible to participate in the City of Chicago Municipal Employee's pension plan. Those employees are excluded from coverage under the Commission Plan.

The amount of covered payroll for those Commission employees participating in the Plan was \$2,839,939 and \$2,818,990, respectively, for the years ended December 31, 2003 and 2002. The contribution requirement of the Commission for the quarter ended December 31, 2003 and 2002 was \$44,866 and \$35,694, respectively. The required contribution for 2003 will be paid in 2004.

The Commission's personnel policy provides for certain employer-funded, post-employment benefits to be paid to eligible employees of the Commission. The Commission's payments under the terms of the policy are financed on a pay-as-you-go basis. During 2003 and 2002, the Commission made payments of \$251,380 and \$149,800, respectively.

6. COMMITMENTS

At December 31, 2003 and 2002, the Commission had commitments for construction contracts and related architects' and consultants' fees of approximately \$252 million and \$231.4 million, respectively.

7. LITIGATION

There are several pending lawsuits in which the Commission is a defendant. The Commission has accrued for all losses it deems probable. Pursuant to the advice of legal counsel, management believes that the ultimate outcome of the remaining claims is not expected to have a material impact on the financial statements of the Commission.

8. SUBSEQUENT EVENT

As a result of mediation, in connection with an Error and Omission claim, the Commission received the net sum of \$925,000 on May 12, 2004 to be applied to project expenditures for the Bronzeville Military Academy addition.

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