

Illinois International Port District

Financial Statements

December 31, 2019 and 2018

Illinois International Port District

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Independent Auditors' Report

To the Board of Directors of
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, 2019 and 2018 and the related statements of revenue collected, expenses and changes in fund balance - modified cash basis, comprehensive income (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 is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of special purpose 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 special purpose 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 audits to obtain reasonable assurance about whether the special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special purpose 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 special purpose 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 special purpose 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 financial position of Illinois International Port District as of December 31, 2019 and 2018 and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 1.

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 accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Chicago, Illinois
May 29, 2020

Illinois International Port District

Statements of Assets, Liabilities, Accumulated Other Comprehensive Loss
and Fund Balance - Modified Cash Basis
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,041,785	\$ 1,215,552
Prepaid expenses	106,848	39,057
Total current assets	<u>2,148,633</u>	<u>1,254,609</u>
Property and Equipment, Net		
Land and land improvements	33,474,718	33,474,718
Buildings and improvements	16,409,766	16,409,766
Equipment	4,104,601	4,104,601
Less accumulated depreciation	<u>(14,099,743)</u>	<u>(13,519,358)</u>
Net property and equipment	<u>39,889,342</u>	<u>40,469,727</u>
Total assets	<u>\$ 42,037,975</u>	<u>\$ 41,724,336</u>
Liabilities, Accumulated Other Comprehensive Loss and Fund Balance		
Current Liabilities		
Accounts payable	\$ 185,466	\$ 101,775
Accrued expenses	49,881	47,776
Capital lease obligations	-	15,008
Note payable	<u>-</u>	<u>27,665</u>
Total current liabilities	<u>235,347</u>	<u>192,224</u>
Long-Term Liabilities		
Accrued pension benefits	9,337,628	9,603,156
Lease deposits by tenants	99,764	99,764
Long-term debt, net	<u>9,587,625</u>	<u>9,577,125</u>
Total liabilities	<u>19,260,364</u>	<u>19,472,269</u>
Accumulated Other Comprehensive Loss and Fund Balance		
Accumulated other comprehensive loss	(2,554,445)	(2,921,674)
Fund balance	<u>25,332,056</u>	<u>25,173,741</u>
Total accumulated other comprehensive loss and fund balance	<u>22,777,611</u>	<u>22,252,067</u>
Total liabilities, accumulated other comprehensive loss and fund balance	<u>\$ 42,037,975</u>	<u>\$ 41,724,336</u>

See notes to special purpose financial statements

Illinois International Port District

Statements of Revenue Collected, Expenses and Changes in Fund Balance - Modified Cash Basis
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues		
Transit sheds and warehouses	\$ 1,901,899	\$ 1,960,120
Dockage and wharfage	696,001	689,741
Land leases	1,471,051	1,269,339
Licenses and fees	732,337	455,134
Other	192,984	193,787
	<u>4,994,272</u>	<u>4,568,121</u>
Operating Expenses		
Board members' compensation	230,000	230,000
Salaries and benefits	1,420,170	1,494,238
Insurance and security	712,938	636,013
Repairs, maintenance and facility improvements	282,323	324,447
Marketing, advertising and promotion	32,390	50,341
Office expenses	82,245	79,632
Utilities	246,976	249,407
Legal fees	337,764	229,712
Other professional fees	109,721	125,387
Depreciation	580,385	585,172
	<u>4,034,912</u>	<u>4,004,349</u>
Operating income	959,360	563,772
Other Expense		
Interest expense	<u>(801,045)</u>	<u>(528,122)</u>
Net income	158,315	35,650
Fund Balance, Beginning	<u>25,173,741</u>	<u>25,138,091</u>
Fund Balance, Ending	<u>\$ 25,332,056</u>	<u>\$ 25,173,741</u>

See notes to special purpose financial statements

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Statements of Comprehensive Income (Loss) - Modified Cash Basis
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net income	\$ 158,315	\$ 35,650
Other comprehensive income (loss):		
Minimum pension liability adjustment	<u>367,229</u>	<u>(452,828)</u>
Comprehensive income (loss)	<u>\$ 525,544</u>	<u>\$ (417,178)</u>

See notes to special purpose financial statements

Illinois International Port District

Statements of Cash Flows - Modified Cash Basis
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Net income	\$ 158,315	\$ 35,650
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	580,385	585,172
Amortization of deferred financing costs	10,500	10,500
Changes in pension assets and liabilities	881,377	975,957
Changes in assets and liabilities:		
Prepaid expenses	(239)	(13,416)
Accounts payable	16,139	(237,655)
Accrued expenses	2,105	9,901
Port District contributions to pension plan	(779,676)	(680,560)
Lease deposits by tenants	-	(26,400)
Net cash flows from operating activities	<u>868,906</u>	<u>659,149</u>
Cash Flows From Investing Activities		
Capital expenditures	<u>-</u>	<u>(79,370)</u>
Cash Flows From Financing Activities		
Principal payments on capital lease obligations	(15,008)	(23,533)
Repayments of note payable	<u>(27,665)</u>	<u>(19,760)</u>
Net cash flows from financing activities	<u>(42,673)</u>	<u>(43,293)</u>
Net change in cash and cash equivalents	826,233	536,486
Cash and Cash Equivalents, Beginning	<u>1,215,552</u>	<u>679,066</u>
Cash and Cash Equivalents, Ending	<u>\$ 2,041,785</u>	<u>\$ 1,215,552</u>
Supplemental Cash Flow Disclosures		
Cash paid for interest	<u>\$ 794,294</u>	<u>\$ 513,089</u>
Noncash Investing and Financing Activities		
Equipment acquired via issuance of note payable	\$ -	\$ 47,425
Deferred debt issuance costs for subsequent bond issuance	<u>\$ 67,552</u>	<u>\$ -</u>

See notes to special purpose financial statements

Illinois International Port District

Notes to Special Purpose Financial Statements
December 31, 2019 and 2018

1. Summary of Significant Accounting Policies

Nature of Operations

The Illinois International Port District (the Port District) 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.

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 accounting principles generally accepted in the United States of America (US GAAP), 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 US GAAP. Due to the limited use of these financial statements and the nature of the Port District's operations noted above, certain disclosure requirements and the use of the direct cash flow method set forth by the GASB are not included in these financial statements because the additional information is not considered useful to the users of the financial statements.

Use of Estimates

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

Major Tenants

One tenant of the Port District accounted for approximately 54 percent and 51 percent of revenues for the years ended December 31, 2019 and 2018, respectively.

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.

Cash and Cash Equivalents

The Port District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Financial instruments that potentially subject the Port District to concentrations of credit risk consist principally of cash deposits maintained at banks, which at times, may exceed federally insured limits. Depository accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Port District has not, nor do they expect to experience any losses on these deposits.

Cash and cash equivalents includes \$954,882 and \$471,508 as of December 31, 2019 and 2018, respectively, which is held in a sinking bond fund and thus is restricted as to its use.

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Property and Equipment

Property and equipment are stated at 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. Buildings and improvements and equipment are being depreciated using the straight-line method over the following estimated useful lives:

	<u>Year</u>
Buildings and improvements	30
Equipment	5

Impairment of Long-Lived Assets

Management reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Deferred Financing Costs

The Port District presents deferred financing costs as a direct reduction of its long-term debt liability upon issuance of the debt. The Port District has \$32,375 and \$42,875 of deferred financing costs included in long-term debt, net on the statements of assets, liabilities, accumulated other comprehensive loss and fund balance (modified cash basis) as of December 31, 2019 and 2018, respectively. Deferred financing costs are amortized on a straight-line basis to interest expense over the term of the agreement described in Note 2, which approximates the interest method. The Port District presents deferred financing costs as a prepaid expense when incurred prior to the issuance of the debt. The Port District has \$67,552 of deferred financing costs included in prepaid expenses on the statements of assets, liabilities, accumulated other comprehensive loss and fund balance (modified cash basis) as of December 31, 2019 relating to the agreement described in Note 7.

Advertising

Advertising costs are expensed as incurred.

2. Long-Term Debt

On January 30, 2003, the Port District entered into a \$15,000,000 variable rate revenue refunding bond, series 2003 (the 2003 Variable Bond Agreement). The 2003 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. Under the loan agreement, the Port District makes interest only payments each year. The variable rate loan adjusted weekly based on the Bond Market Association Municipal Swap Index (BMA) plus related fees of 4.00 percent as of December 31, 2018. In October 2018, the 2003 Variable Bond Agreement was amended to incorporate an effective interest rate per annum of 5.00 percent as of January 1, 2019, 6.00 percent as of April 1, 2019, 7.00 percent as of July 1, 2019 and 8.00 percent as of October 1, 2019. The BMA was 1.74 percent and 1.84 percent as of December 31, 2019 and 2018, respectively. The 2003 Variable Bond Agreement matures on January 1, 2023. The Port District was not required to comply with financial covenants until December 2018. Effective October 2018, the Port District was not required to comply with financial covenants as of December 31, 2019 and 2018.

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 2003 Variable Bond Agreement. The balance is \$9,620,000 as of December 31, 2019 and 2018.

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Total interest expense incurred in relation to the 2003 Variable Bond Agreement was \$801,045 and \$528,122 for the years ended December 31, 2019 and 2018, respectively.

The minimum sinking fund payment requirements as of December 31, 2019 for the following five years were as follows:

Years ending December 31:	
2020	\$ 503,986
2021	525,045
2022	549,214
2023	573,352
2024	<u>598,552</u>
Total	<u>\$ 2,750,149</u>

During 2018, the Port obtained a \$47,425 note payable to acquire certain equipment. The note payable to a finance corporation was payable in monthly installments of \$3,952, including interest of 4.75 percent per annum, through August 2019 and was collateralized by the equipment. Principal payments of \$27,665 and \$19,760 were made during the years ended December 31, 2019 and 2018, respectively.

3. Minimum Future Rental Income

As of December 31, 2019, the approximate minimum future rental income from noncancelable operating leases by year were as follows:

Years ending December 31:	
2020	\$ 2,264,000
2021	2,068,000
2022	1,827,000
2023	1,827,000
2024	1,827,000
Thereafter	<u>8,208,000</u>
Total	<u>\$ 18,021,000</u>

During the years ended December 31, 2019 and 2018, noncancelable operating leases generated revenue of approximately \$2,263,700 and \$2,228,200, respectively.

The approximate cost and accumulated depreciation of leased land and facilities as of December 31, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 33,474,718	\$ 33,474,718
Buildings and improvements	<u>16,409,766</u>	<u>16,409,766</u>
Total cost leased land and facilities	49,884,484	49,884,484
Less accumulated depreciation	<u>(10,382,745)</u>	<u>(9,851,869)</u>
Net leased land and facilities	<u>\$ 39,501,739</u>	<u>\$ 40,032,615</u>

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4. 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 percent of final average earnings 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 District classifies its equity and fixed income securities as Level 1 based upon quoted prices in active markets.

The fair value of the Port District's plan assets as of December 31, 2019 and 2018, by asset category is as follows:

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Cash and money market fund	\$ 351,657	\$ 351,657	\$ -	\$ -
Equity securities	2,244,302	2,244,302	-	-
Fixed income securities	1,362,992	1,362,992	-	-
Total investments	<u>\$ 3,958,951</u>	<u>\$ 3,958,951</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Cash and money market fund	\$ 362,481	\$ 362,481	\$ -	\$ -
Equity securities	1,894,450	1,894,450	-	-
Fixed income securities	1,114,828	1,114,828	-	-
Total investments	<u>\$ 3,371,759</u>	<u>\$ 3,371,759</u>	<u>\$ -</u>	<u>\$ -</u>

The Port District's plan asset mix as of December 31, 2019 and 2018 and target allocation are as follows:

	2019	2018	Target %
Fixed income securities and bonds	34%	33%	50%
Cash and cash equivalents	9	11	10
Equity securities	57	56	40
Total investments	<u>100%</u>	<u>100%</u>	<u>100%</u>

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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. Weighted average assumptions as of December 31:

	<u>2019</u>	<u>2018</u>
Discount rate	5.50%	5.50%
Expected return on plan assets	7.00	7.00
Rate of compensation increase	2.00	2.00

Balances as of December 31, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Accrued pension liability	\$ 9,337,628	\$ 9,603,156
Accumulated other comprehensive loss	\$ 2,554,445	\$ 2,921,674

Included in accumulated other comprehensive loss as of December 31, 2019 and 2018, are amounts that have not yet been recognized in net periodic pension cost related to unrecognized actuarial losses of \$2,554,445 and \$2,921,674, respectively. The unrecognized actuarial losses are being amortized over 12.31 years. The Port District expects to amortize \$208,000 of actuarial net losses during the year ended December 31, 2020.

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

	<u>2019</u>	<u>2018</u>
Projected benefit obligation:		
Beginning of year	\$ (12,974,915)	\$ (12,481,696)
Service cost	(293,289)	(319,746)
Interest cost	(692,210)	(667,537)
Actuarial loss	(114,717)	(195,253)
Benefits paid	778,552	689,317
End of year	<u>(13,296,579)</u>	<u>(12,974,915)</u>
Fair value of plan assets:		
Beginning of year	3,371,759	3,626,765
Actual return on assets	586,068	(246,249)
Port District contributions	779,676	680,560
Benefits paid	(778,552)	(689,317)
End of year	<u>3,958,951</u>	<u>3,371,759</u>
Funded status	<u>\$ (9,337,628)</u>	<u>\$ (9,603,156)</u>
Accumulated benefit obligations	<u>\$ 13,036,604</u>	<u>\$ 12,682,761</u>

The underfunded status of the plan of \$9,337,628 and \$9,603,156 as of December 31, 2019 and 2018, respectively, 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 30, 2020.

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Significant activity affecting the benefit obligation for the years ended December 31, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Benefit cost	\$ 881,337	\$ 975,957
Benefits paid	(778,552)	(689,317)
Contributions made by the Port District	779,676	680,560

The Port District estimates it will contribute \$750,000 to the plan during the year ended December 31, 2020. The Port District estimates that future benefit payments will be paid out over the next ten years as follows:

Years ending December 31:	
2020	\$ 935,245
2021	934,203
2022	916,415
2023	906,842
2024	1,024,297
Thereafter	<u>4,916,528</u>
Total	<u>\$ 9,633,530</u>

5. 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 special purpose financial statements.

As of December 31, 2019 and 2018, the principal balance of the Series 2001 Port Revenue Bonds was \$8,500,000.

6. Capital Leases

The Port District acquired vehicles under a capital lease obligation during November 2016. As of December 31, 2019 and 2018, \$65,486 of assets acquired via the capital lease are included in equipment on the statements of assets, liabilities, accumulated other comprehensive loss and fund balance (modified cash basis). The Port District had \$52,389 and \$39,292 of accumulated depreciation related to these assets as of December 31, 2019 and 2018, respectively. There are no future minimum lease obligations as of December 31, 2019.

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Notes to Special Purpose Financial Statements
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7. Subsequent Events

Management has evaluated subsequent events occurring through May 29, 2020, the date that the special-purpose financial statements were ready to be issued for events requiring recording or disclosure in the special-purpose financial statements.

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2 and resulting disease, COVID-19, spread to the United States, including to geographic locations in which the Port District operates. As of the date above, the Port District's evaluation of the effects of these events is ongoing.

The extent of the impact of COVID-19 on the Port District's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

On March 31, 2020, the Port District entered into a \$9,380,000 taxable revenue refunding bond, series 2020 (the 2020 Bond Agreement), for which a portion of the proceeds were used to repay the 2003 Variable Bond Agreement in full. The 2020 Bond Agreement is by and among the Port District, as borrower; Amalgamated Bank of Chicago, as trustee; and the Depository Trust Company, as underwriter and remarketer. Under the loan agreement, the Port District makes interest and principal payments each year. The interest rate on the 2020 Bond Agreement is 5 percent per annum. The 2020 Bond Agreement matures on January 1, 2035.