Public Building Commission of Chicago

Basic Financial Statements as of and for the Years Ended December 31, 2006 and 2005, and Independent Auditors' Report

PUBLIC BUILDING COMMISSION OF CHICAGO

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Commissioners of the
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, 2006 and 2005, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on the respective 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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of 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 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commission's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit such information, and we do not express an opinion on it.

Deloitte & Touche LLP

November 30, 2007

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, 2006, 2005, and 2004. Please read it in conjunction with the Commission's basic financial statements, which follow this section.

INTRODUCTION

The Management's Discussion and Analysis is an element of the reporting model adopted by the Governmental Accounting Standards Board.

The Commission's basic financial statements for the years ended December 31, 2006 and 2005, 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 deliver high quality capital projects on time, on budget, as specified. 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

The Commission reports on an economic resources measurement focus and an accrual basis of accounting. 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 the balances 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 the amounts of the project development expenditures, the Daley Center operating expenses, Commission administrative operating expenses, and interest income and 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 cash and cash equivalent activity 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 $80.0 million at December 31, 2006. Of this amount, $49.5 million is invested in capital assets and $30.5 million is restricted for use by the Daley Center and for Commission operations. The Commission’s total net assets decreased by $0.2 million for the year ended December 31, 2006, and increased by $3.6 million for the year ended December 31, 2005.

The assets of the Commission exceeded liabilities by approximately $80.2 million at December 31, 2005. Of this amount, $51.3 million is invested in capital assets and $28.9 million is restricted for use by the Daley Center and for Commission operations. The Commission’s total net assets increased by $3.6 million and by $1.8 million, respectively, for the years ended December 31, 2005 and 2004. The increase in net assets for the year ended December 31, 2005, is attributable to 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, offset by depreciation.

Operating revenues for 2006 and 2005 were $246.2 million and $178.1 million, respectively. Operating expenses were $239.0 and $166.7 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 a decrease in other revenue in the form of fees from project development services recognized and stable rental income — lessees, which includes amounts collected from lessees that will be used for interest expense. Investment income for 2006 and 2005 was $8.1 million and $15.2 million, respectively. The decrease is primarily due to decreases in cash balances held in investments during the year as a result of construction activity, as well as decreases in interest rates. Also, in October 2006, the Commission received a settlement in the amount of $24.3 million with the United States Gypsum Corporation regarding the past, present, and future costs of asbestos remediation within the Daley Center. The settlement amount, along with interest earned, was allocated among the tenants, including the Commission, of the Daley Center in July 2007. An other expense and payable to related parties of

$23.8 million has been recorded in the basic financial statements as of December 31, 2006, for the amounts paid to the tenants other than the Commission.

Operating revenues for 2005 and 2004 were $178.1 million and $369.5 million, respectively. Operating expenses were $166.7 and $352.9 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 decreased rental income — lessees, which includes amounts collected from lessees which will be used for interest expense. Investment income for 2005 and 2004 was $15.2 million and $13.2 million, respectively. The increase is due primarily to increases in cash balances held in the checking and sweep accounts during the year as a result of construction activity.

Operating revenues are anticipated to increase beginning in 2007 due to a major new construction program. Under Mayor Richard M. Daley's "Modern Schools Across Chicago," the Commission will manage the construction of 22 new schools. This program will be ongoing over the next several years through a partnership with the Chicago Public Schools. Operating revenue from programs under which client agencies pay the Commission directly is becoming more significant to the Commission as resources from bond leases with certain clients are declining.

SUMMARY OF CONDENSED FINANCIAL INFORMATION AT DECEMBER 31, 2006, 2005, AND 2004:

	2006	2005	2004
Total assets	$529,830,837	$818,730,279	$ 974,181,952
Total liabilities	449,826,266	738,511,059	897,605,647
Total net assets	$ 80,004,571	$ 80,219,220	$ 76,576,305
Operating revenues	$246,185,713	$178,079,729	$ 369,505,630
Operating expenses	239,047,800	166,709,289	352,969,192
Other net expense	(7,352,562)	(7,727,525)	(14,803,906)
(Decrease) Increase in net assets	$ (214,649)	$ 3,642,915	$ 1,732,532

Capital Assets

At December 31, 2006, the Commission's $49.5 million invested in capital assets is net of accumulated depreciation of $71.2 million. The Commission had $120.7 million of gross capital assets, including $11.7 million in land, $71.3 million in the Daley Center building, $32.3 million of building improvements to that structure, as well as $5.4 million of construction in process. During 2006, the Commission had capital additions of $1.3 million, which consisted of building improvements for the Daley Center. The Commission's 2007 capital budget for the Daley Center authorizes up to $9.5 million in capital expenditures including $8.8 million for the third phase of sprinkler installation. A summary of changes in capital assets is included in Note 3 to the basic financial statements.

At December 31, 2005, the Commission's $51.3 million invested in capital assets is net of accumulated depreciation of $68.2 million. The Commission had $119.5 million of gross capital assets, including $11.7 million in land, $71.3 million in the Daley Center building, $31.6 million of building improvements to that structure, as well as $4.9 million of construction in process. During 2005, the Commission had capital additions of $2.9 million, which consisted of building improvements for the Daley Center.

Long-Term Debt and Capital Leases Receivable

As of December 31, 2006 and 2005, the Commission had $279.5 million and $424.8 million, respectively, in debt outstanding. The Commission issued $91.3 million in Public Building Commission of Chicago Building Refunding Revenue Bonds Series 2006 (Chicago Transit Authority) bonds in 2006, which, along with other sources, refunded the Public Building Commission of Chicago Building Refunding Revenue Bonds Series 2003 (Chicago Transit Authority) and reduced by $23.8 million the amount of bonds outstanding for that purpose. Also in 2006, the remaining $110.6 million in Public Building Commission of Chicago Building Revenue Bonds Series C of 1999 was retired.

As of December 31, 2005 and 2004, the Commission had $424.8 million and $511.5 million, respectively, in debt outstanding. No additional long-term debt was incurred in 2005.

As of December 31, 2006 and 2005, the Commission had $277.0 million and $422.5 million, respectively, in capital leases receivable. In 2006, the remaining obligation of $110.6 million for the capital lease receivable for the Public Building Commission of Chicago Building Revenue Bonds Series C of 1999 was fulfilled, causing the large decrease in the balance.

As of December 31, 2005 and 2004, the Commission had $422.5 million and $509.3 million, respectively, in capital leases receivable.

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 Director of Finance at Richard J. Daley Center, 50 West Washington, Room 200, Chicago, Illinois 60602.

PUBLIC BUILDING COMMISSION OF CHICAGO

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2006 AND 2005

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,536,613	$ 3,218,274
Due from other governments	6,709,788	5,969,327
Due from other agencies	12,470,301	37,438,250
Other receivables	184,296	70,357
Other current assets	179,774	246,778
Current portion of capital lease receivable	13,300,000	125,705,000
Total current assets	38,380,772	172,647,986
INVESTMENTS:		
United States Treasury obligations	8,186,335	22,407,463
Money market mutual funds	161,662,360	141,504,775
Repurchase agreements		1,185,349
Federal National Mortgage Association	6,649,000	130,606,842
Total investments	176,497,695	295,704,429
CAPITAL LEASES RECEIVABLE	263,700,000	296,780,000
CAPITAL ASSETS (DALEY CENTER):		
Land	11,667,688	11,667,688
Building	71,276,903	71,276,903
Building improvements	32,362,214	31,604,848
Construction in progress	5,432,491	4,929,174
Accumulated depreciation	(71,201,759)	(68,177,044)
Total capital assets	49,537,537	51,301,569
OTHER ASSETS	1,714,833	2,296,295
TOTAL	$ 529,830,837	$ 818,730,279

(Continued)

PUBLIC BUILDING COMMISSION OF CHICAGO

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2006 AND 2005

LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 37,770,974	$ 27,675,595
Due to other governments	23,785,082	
Interest payable	2,161,410	5,883,358
Retained on contracts	16,499,226	20,677,505
Deferred rental income	16,146,866	16,463,084
Current portion of deferred project revenue	21,442,666	38,552,459
Current portion of long-term debt	14,243,235	125,978,426
Total current liabilities	132,049,459	235,230,427
NONCURRENT LIABILITIES:		
Funds held for future lease payments		117,022,176
Long-term debt	274,209,018	306,377,902
Other liabilities	2,803,750	400,000
Deferred project revenue	40,764,039	79,480,554
Total noncurrent liabilities	317,776,807	503,280,632
Total liabilities	449,826,266	738,511,059
NET ASSETS:		
Invested in capital assets — net of related debt	49,537,537	51,301,569
Restricted — Daley Center	10,937,123	9,277,951
Restricted — Commission's operations	19,529,911	19,639,700
Total net assets	80,004,571	80,219,220
TOTAL	$529,830,837	$818,730,279

See notes to basic financial statements. (Concluded)

PUBLIC BUILDING COMMISSION OF CHICAGO

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
OPERATING REVENUES:		
Project revenue	$200,438,673	$128,391,233
Rental income — lessees	26,696,278	26,792,127
Rental income — Daley Center	17,844,210	17,274,412
Other revenue	1,206,552	5,621,957
Total operating revenues	246,185,713	178,079,729
OPERATING EXPENSES:		
Construction costs	212,499,351	141,853,947
Maintenance and operations — Daley Center	15,947,776	15,080,004
Administrative expense	7,575,958	6,807,782
Depreciation expense	3,024,715	2,967,556
Total operating expenses	239,047,800	166,709,289
Operating income	7,137,913	11,370,440
OTHER INCOME (EXPENSES):		
Asbestos property damage settlement	24,307,698	
Distribution of asbestos settlement	(23,785,082)	
Investment income	8,115,981	15,179,712
Other income	189,506	364,709
Interest expense	(16,180,665)	(23,271,946)
Net other expenses	(7,352,562)	(7,727,525)
(DECREASE) INCREASE IN NET ASSETS	(214,649)	3,642,915
NET ASSETS — Beginning of year	80,219,220	76,576,305
NET ASSETS — End of year	$ 80,004,571	$ 80,219,220

See notes to basic financial statements.

PUBLIC BUILDING COMMISSION OF CHICAGO

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Received for projects	$ 190,452,927	$ 154,761,538
Received for lease and rent payments	169,188,809	130,426,503
Payments for project construction and administration	(227,635,231)	(191,783,351)
Net cash flows provided by operating activities	132,006,505	93,404,690
CASH FLOWS (USED IN) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for capital acquisitions	(1,260,683)	(2,886,843)
Issuance of new debt	99,884,047	
Issuance costs	(1,724,232)	
Principal paid on revenue bonds	(125,540,000)	(86,649,999)
Payment to escrow agent	(116,598,000)	
Interest paid on revenue bonds	(19,247,041)	(24,935,700)
Funds held for future lease payments used	(117,022,176)	(68,776,905)
Net cash flows used in financing activities	(281,508,085)	(183,249,447)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Change in investments	119,206,734	76,619,383
Investment income	8,115,981	15,179,712
Receipt of asbestos settlement	24,307,698	
Other investment income	189,506	364,718
Net cash flows provided by investing activities	151,819,919	92,163,813
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,318,339	2,319,056
CASH AND CASH EQUIVALENTS — Beginning of year	3,218,274	899,218
CASH AND CASH EQUIVALENTS — End of year	$ 5,536,613	$ 3,218,274
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$ 7,137,913	$ 11,370,440
Adjustments to reconcile:		
Depreciation	3,024,715	2,967,556
Changes in assets and liabilities:		
Due from other governments	(740,461)	(152,372)
Due from other agencies	24,967,949	(6,508,017)
Other receivables	(113,939)	186,562
Other current assets	67,004	167,260
Capitalized lease receivable	145,485,000	86,805,000
Accounts payable and accrued expenses	10,095,379	(22,262,383)
Retained on contracts	(4,178,279)	(6,346,494)
Deferred rental income	(316,218)	(292,664)
Deferred project revenue	(55,826,308)	27,069,802
Other liabilities	2,403,750	400,000
NET CASH FROM OPERATING ACTIVITIES	$ 132,006,505	$ 93,404,690

See notes to basic financial statements.

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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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 basic financial statements present only the Commission (the primary government), since the Commission does not have any component units.

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 — 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 — The Commission presents 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 Federal National Mortgage Association securities and money market (government bonds) mutual funds. 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. Investments at December 31, 2006 and 2005, consist of $121,388,146 and $268,182,943, respectively, restricted for future capital construction and improvements related to Commission projects and for amounts held to cover future debt service principal and interest payments. Other investments at December 31, 2006 and 2005, consist of $55,109,549 and $27,521,486, respectively, for use by the Richard J. Daley Center ("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, 2006 and 2005, is $13,300,000 and $125,705,000, 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	3–5

The Picasso sculpture that stands on Daley Plaza is 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 — Other assets are comprised of costs related to the issuance of the Series 2006 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 and as such, the Commission does not have an accrual recorded.

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. Accrued vacation is included in accounts payable and accrued expenses on the statement of net assets.

Long-Term Debt — Long-term debt is recognized as a liability. The amount that is payable within a one-year period is classified as current.

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 subaccounts: (i) the deposit subaccount and (ii) the payment subaccount. 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 subaccounts in conjunction with debt service requirements.

Grant revenues are deposited by the Board of Education into the deposit subaccount and are transferred to the payment subaccount 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 subaccount. At the lease payment dates, amounts to reduce the capital lease receivable and to reflect rental income are recorded in the bond funds. The last lease payment was made during 2006, and the balance in this account as of December 31, 2006 is $0.

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

Rental Income — Annual lease rental payments are due on or before December 1 of each year. All rental payments received before December 31 that 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 the related administrative expenses and debt service are incurred. Rental income includes amounts pledged under the lease agreements to cover all interest expense payments of the Commission's debt.

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.

New Accounting Standards — GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards of accounting and financial reporting for other post employment benefits expenses and assets, note disclosures and required supplementary information, is effective for financial statements for periods beginning after December 15, 2006. The Commission has not yet determined the impact of the adoption of this standard on the basic financial statements.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2005. This statement has been adopted by the Commission for the year ended December 31, 2006. This statement had no impact on the Commission's basic financial statements for the year ended December 31, 2006.

GASB Statement No. 47, *Accounting for Termination Benefits*, establishes accounting standards for termination benefits and is effective in two phases. For termination benefits provided through an existing defined benefit Other Postemployment Benefits (OPEB) plan, the provisions of the statement should be implemented simultaneously with the requirements of GASB Statement No. 45. For all other termination benefits, this statement is effective for financial statements beginning after June 15, 2005. The phase of this statement related to all other termination benefits has been adopted by the Commission for the year ended December 31, 2006, and has no impact on the Commission's basic financial statements for the year ended December 31, 2006. The Commission has not yet determined the impact of the phase of the statement related to OPEB and GASB Statement No. 45.

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, 2006 and 2005, 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).

- Repurchase agreements to acquire securities through banks or trust companies authorized to do business in the State of Illinois.

The Commission's Investment Policy contains the following stated objectives:

- Safety of Principal. Investments of the Commission shall be undertaken in a manner that ensures the preservation of capital in the total portfolio.

- Liquidity. The total portfolio of the Commission shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

- Rate of Return. The total portfolio of the Commission shall be designed with the objective of attaining the highest rate of return, consistent with the Commission's investment risk constraints identified herein and with prudent investment principles and cash flow needs.

- Benchmark. An appropriate benchmark shall be established to determine if market yields and performance objectives are being achieved.

- Public Trust. All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transactions that might impair public confidence in the Commission.

- Local Consideration. The Commission seeks to promote economic development in the City of Chicago. In accordance with this goal, preference shall be given to any depository institution meeting the requirements defined in this policy, within the city limits whose investment rates are within 0.125% of the rate that could be obtained at an institution outside the city limits. In addition, the Commission shall strongly consider depository institutions that are certified Minority Business Enterprise and Women Business Enterprise institutions.

At December 31, 2006 and 2005, the carrying amounts of the Commission's cash deposits were $5,536,613 and $3,218,274, respectively. The Commission's cash bank balances at December 31, 2006 and 2005, totaled $4,982,912 and $3,202,678, respectively, of which $100,000 per bank (approximately $700,000) was covered by Federal Deposit Insurance Corporation insurance.

All securities that 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.

	Carrying Amount at December 31, 2006	**Maturities Less Than 1 Year**
U.S. Treasury obligations	$ 8,186,335	$ 8,186,335
Federal National Mortgage Association	6,649,000	6,649,000
Money market mutual funds	161,662,360	161,662,360
Total	$176,497,695	$176,497,695

Credit Risk — As of December 31, 2006, Moody's and S&P rated the Commission's investments in money market mutual funds Aaa and AAAm, respectively.

Concentration of Credit Risk — As of December 31, 2006, the Commission's total investments in the Federal National Mortgage Association are not greater than 5%.

	Carrying Amount at December 31, 2005	Maturities Less Than 1 Year
Repurchase agreements	$ 1,185,349	$ 1,185,349
U.S. Treasury obligations	22,407,463	22,407,463
Federal National Mortgage Association	130,606,842	130,606,842
Money market mutual funds	141,504,775	141,504,775
Total	$295,704,429	$295,704,429

Credit Risk — As of December 31, 2005, Moody's rated the Commission's investments in money market mutual funds AAA.

Concentration of Credit Risk — As of December 31, 2005, 44.17% of the Commission's total investments are in the Federal National Mortgage Association.

Custodial Risk — As of December 31, 2005, the Commission had invested in repurchase agreements. 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. The Commission was in compliance with this requirement at December 31, 2005.

3. CAPITAL ASSETS (DALEY CENTER)

A summary of changes in capital assets is as follows:

	Balance December 31, 2005	Additions, Transfers In, and Depreciation	Disposals, Adjustments, and Transfers Out	Balance December 31, 2006
Land	$ 11,667,688	$ -	$ -	$ 11,667,688
Building	71,276,903			71,276,903
Building improvements	31,604,847	757,367		32,362,214
Construction in progress	4,929,175	1,342,344	(839,028)	5,432,491
	119,478,613	2,099,711	(839,028)	120,739,296
Accumulated depreciation	(68,177,044)	(3,024,715)		(71,201,759)
Total	$ 51,301,569	$ (925,004)	$ (839,028)	$ 49,537,537

	Balance December 31, 2004	Additions, Transfers In, and Depreciation	Disposals, Adjustments, and Transfers Out	Balance December 31, 2005
Land	$ 11,667,688	$ -	$ -	$ 11,667,688
Building	71,276,903			71,276,903
Building improvements	30,075,858	1,528,990		31,604,848
Construction in progress	3,571,321	2,886,843	(1,528,990)	4,929,174
	116,591,770	4,415,833	(1,528,990)	119,478,613
Accumulated depreciation	(65,209,488)	(2,967,556)		(68,177,044)
Total	$ 51,382,282	$ 1,448,277	$ (1,528,990)	$ 51,301,569

4. REVENUE BONDS

The summary of long-term debt outstanding at December 31, 2006, is as follows:

	Balance December 31, 2005 (in 000s)	Additions	Reductions	Balance December 31, 2006 (in 000s)
$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%	$ 60,520	$ -	$ 8,545	$ 51,975
$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)	6,765		2,345	4,420
$17,295,000 Series 1998A — Chicago Park District Park Sites and Facilities — building revenue refunding bonds (1993C), 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 (1993A), 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%	110,650		110,650	
$119,020,000 Series 2003 — Chicago Transit Authority Building and Facilities — for construction of the CTA Headquarters, 5.00% to 5.25%	115,120		115,120	
$91,340,000 Series 2006 — Chicago Transit Authority — building refunding revenue bonds 4% to 5.25%		91,340		91,340
Total revenue bonds outstanding — December 31, 2006	424,830	$91,340	$236,660	279,510
Premium	7,526			8,942
Less current portion	(125,978)			(14,243)
Noncurrent portion	$ 306,378			$274,209

The summary of long-term debt outstanding at December 31, 2005, is as follows:

	Balance December 31, 2004 (in 000s)	Additions	Reductions	Balance December 31, 2005 (in 000s)
$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%	$ 68,630	$ -	$ 8,110	$ 60,520
$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)	8,955		2,190	6,765
$17,295,000 Series 1998A — Chicago Park District Park Sites and Facilities — building revenue refunding bonds (1993C), 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 (1993A), 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%	183,100		72,450	110,650
$119,020,000 Series 2003 — Chicago Transit Authority Building and Facilities — for construction of the CTA Headquarters, 5.00% to 5.25%	119,020		3,900	115,120
Total revenue bonds outstanding — December 31, 2005	511,480	$ -	$ 86,650	424,830
Premium	7,965			7,526
Less current portion	(87,088)			(125,978)
Noncurrent portion	$432,357			$306,378

Gross interest expense for 2006 and 2005 is $16,482,355 and $23,138,181, respectively, for debt service payments. Amortization of deferred issuance costs, bond premium, and gain on refunding of bonds of $301,690 is also included as a reduction of interest expense for 2006 and amortization of deferred issuance costs of $133,765 is included as an increase in interest expense for 2005. This results in a net interest expense of $16,180,665 and $23,271,946 for 2006 and 2005, 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.

		Annual Rentals Due	
Series of	**Leases**	**From**	**To**
1987B	Community College District No. 508[1]	1987	2006
1988A	Community College District No. 508[1]	1988	2007
1990A	Board of Education of the City of Chicago[1]	1990	2019
1990B	Board of Education of the City of Chicago[1]	1990	2014
1993A	Board of Education of the City of Chicago[3]	1993	2018
1993B	Chicago Park District	1997	2007
1996	Community College District No. 508[2]	1997	2007
1998A	Chicago Park District	1998	2012
1999B	Board of Education of the City of Chicago	1999	2018
2001	Board of Education of the City of Chicago[2]	2001	2015
2001A	Board of Education of the City of Chicago[2]	2002	2018
2003A	Chicago Transit Authority [4]	2004	2023
2006	Chicago Transit Authority	2007	2033

[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 1999B proceeds.
[4] Principal and interest has been defeased from the 2006 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.

During 2006, the remaining balance of $110,650,000 in Public Building Commission of Chicago Building Revenue Bonds Series 1999C was paid off and the bonds were retired.

Annual Requirements — The total of principal and interest due on bonds during the next five years and in subsequent five-year periods as of December 31, 2006, are as follows:

Year(s) Ending	Principal	Interest	Total
2007	$ 13,900,000	$ 11,403,811	$ 25,303,811
2008	14,570,000	13,591,854	28,161,854
2009	15,625,000	12,849,058	28,474,058
2010	5,455,000	12,072,270	17,527,270
2011	28,385,000	11,817,101	40,202,101
2012 – 2016	93,495,000	42,560,268	136,055,268
2017 – 2021	52,975,000	19,696,276	72,671,276
2022 – 2026	18,850,000	12,580,500	31,430,500
2027 – 2031	24,505,000	7,079,100	31,584,100
2022 – 2036	11,750,000	933,450	12,683,450
Total	$ 279,510,000	$ 144,583,688	$ 424,093,688

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, 2006 and 2005, the outstanding balances for refunded bonds are as follows:

	December 31, 2006 Amount Outstanding (in 000s)	December 31, 2005 Amount Outstanding (in 000s)
1986A	$ -	$ 9,650
1987A	100	200
1987B	19,240	33,775
1988A	29,560	36,865
1990A	243,480	247,750
1990B	10,210	11,005
1995A	8,145	8,805
2003	111,120	
Total	$ 421,855	$ 348,050

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. As of December 31, 2006 and 2005, the Commission had estimated it had no liability pursuant to the arbitrage rebate regulations.

Series 2006 Bonds — Public Building Commission of Chicago Building Refunding Revenue Bonds, Series 2006 (Chicago Transit Authority) $91,340,000 were sold at a premium in October 2006. The bonds have interest rates ranging from 4.00% to 5.25% and maturity dates ranging from March 1, 2007 to March 1, 2033. In connection with this issuance, the Commission deposited $116,598,610 of proceeds in an irrevocable trust with an escrow agent to provide for the advance refunding of $111,120,000 of its Series 2003 bonds which will mature in the year of 2023. As a result of this issuance, $111,120,000 is considered to be defeased and the liability has been removed from the December 31, 2006 statement of net assets. The refunding above of the bonds results in an economic gain (difference between the present value of the debt service payment on the old and new debt) of $1,821,977 and a decrease in the absolute dollar amount of debt service payments of $388,371 and a book gain of $455,415, which is being amortized over 17 years, the remaining life of the old debt.

5. CAPITAL LEASES RECEIVABLE

The summary of capital leases receivable at December 31, 2006, is as follows:

	Balance December 31, 2005 (in 000s)	Additions	Reductions	Balance December 31, 2006 (in 000s)
$353,095,000 Series 1993A — Board of Education of the City of Chicago Buildings and Facilities — acquiring sites, constructing, and equipping buildings and facilities	$ 60,520	$ -	$ 8,545	$ 51,975
$20,830,000 Series 1993B — Chicago Park District Park Sites and Facilities — design and constructing for the restoration of Soldier Field Stadium	4,420		2,510	1,910
$17,295,000 Series 1998A — Chicago Park District Park Sites and Facilities — building revenue refunding bonds (1993C)	17,295			17,295
$114,480,000 Series 1999B — Board of Education of the City of Chicago Building and Facilities — building revenue refunding bonds (1993A)	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	110,650		110,650	
$119,020,000 Series 2003A — Chicago Transit Authority Building and Facilities — constructing, and equipping buildings and facilities	115,120		115,120	
$91,340,000 Series 2006 — Chicago Transit Authority — building Transit Authority — building refunding revenue bonds (2003)		91,340		91,340
Total capital lease receivable — December 31, 2006	422,485	$91,340	$236,825	277,000
Less current portion	(125,705)			(13,300)
Noncurrent portion	$296,780			$263,700

The summary of capital leases receivable at December 31, 2005, is as follows:

	Balance December 31, 2004 (in 000's)	Additions	Reductions	Balance December 31, 2005 (in 000's)
$353,095,000 Series 1993A — Board of Education of the City of Chicago Buildings and Facilities — acquiring sites, constructing, and equipping buildings and facilities	$ 68,630	$ -	$ 8,110	$ 60,520
$20,830,000 Series 1993B — Chicago Park District Park Sites and Facilities — design and constructing for the restoration of Soldier Field Stadium	6,765		2,345	4,420
$17,295,000 Series 1998A — Chicago Park District Park Sites and Facilities — building revenue refunding bonds (1993C)	17,295			17,295
$114,480,000 Series 1999B — Board of Education of the City of Chicago Building and Facilities — building revenue refunding bonds (1993A)	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	183,100		72,450	110,650
$119,020,000 Series 2003A — Chicago Transit Authority Building and Facilities — constructing, and equipping buildings and facilities	119,020		3,900	115,120
Total capital lease receivable — December 31, 2005	509,290	$ -	$86,805	422,485
Less current portion	(86,805)			(125,705)
Noncurrent portion	$422,485			$296,780

Future Minimum Lease Payment Receivable —The future minimum lease payment receivables as of December 31, 2006, are as follows:

Year(s) Ending	Principal	Interest and Other	Total Rent Payment
2007	13,300,000	15,427,464	28,727,464
2008	12,660,000	14,542,124	27,202,124
2009	15,625,000	13,959,906	29,584,906
2010	5,455,000	12,854,516	18,309,516
2011	28,385,000	12,595,679	40,980,679
2012 – 2016	93,495,000	46,768,190	140,263,190
2017 – 2021	52,975,000	20,746,519	73,721,519
2022 – 2026	18,850,000	12,089,925	30,939,925
2027 – 2031	24,505,000	6,435,844	30,940,844
2032 – 2036	11,750,000	625,013	12,375,013
Total	$ 277,000,000	$ 156,045,180	$ 433,045,180

The future minimum lease payment receivables as of December 31, 2005, are as follows:

Year(s) Ending	Principal	Interest and Other	Total Rent Payment
2006	$ 125,705,000	$ 24,022,782	$ 149,727,782
2007 – 2025	296,780,000	136,653,546	433,433,546
Total	$ 422,485,000	$ 160,676,328	$ 583,161,328

6. 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 November 9, 2004, and made effective January 1, 2005. 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 8.75% 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 nonelective 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 $2,759,556 and $2,951,304, respectively, for the years ended December 31, 2006 and 2005. The contribution requirement of the Commission for the quarter ended December 31, 2006 and 2005, was $60,280 and $77,209, respectively. The required contribution for 2006 will be paid in 2007.

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 2006 and 2005, the Commission made payments of $555,433 and $126,773, respectively.

7. SETTLEMENT AGREEMENT

In October 2006, the Commission received $24,307,698 of proceeds, net of legal fees paid directly to outside counsel, from a court approved bankruptcy settlement agreement with USG Corporation. In accepting the proceeds under the settlement agreement, the Commission released USG Corporation from any further liability relating to past, present, or future abatement costs or claims relating to the existence of asbestos in the Daley Center.

Subsequent to December 31, 2006, the Commission finalized the square footage allocation percentages for the distribution of the settlement agreement proceeds among the Daley Center tenants, the City of Chicago, the County of Cook, and the Commission. In July 2007, the Commission approved the distribution of settlement funds of $23,785,082 and interest earned of $825,969 to the City of Chicago $(2,829,579) and the County of Cook $(21,781,473). The Commission has reflected the settlement amount as a liability on the Commission's balance sheet at December 31, 2006, and the amounts are classified as components of other income (expense) in the Commission's operating statement for the year ended December 31, 2006.

8. COMMITMENTS

At December 31, 2006 and 2005, the Commission had commitments for construction contracts and related architects' and consultants' fees of approximately $93 million and $28 million, respectively.

9. 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 basic financial statements of the Commission.

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