City of Chicago, Illinois Chicago Midway International Airport

Basic Financial Statements for the
Years Ended December 31, 2005 and 2004,
Required Supplementary Information,
Additional Information,
Statistical Information and
Independent Auditors' Report

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

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INDEPENDENT AUDITORS' REPORT

The Honorable Richard M. Daley, Mayor,
and Members of the City Council
City of Chicago, Illinois

We have audited the accompanying basic financial statements of Chicago Midway International Airport ("Midway") of the City of Chicago, Illinois ("City") as of December 31, 2005 and 2004, and for the years then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the City'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 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 City's internal control over financial reporting for Midway. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

As discussed in Note 1, the basic financial statements referred to above present only Chicago Midway International Airport and are not intended to present the financial position of the City, the results of its operations, and its cash flows, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such basic financial statements present fairly, in all material respects, the financial position of Chicago Midway International Airport as of December 31, 2005 and 2004, 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.

As described in Note 1 to the basic financial statements, Midway adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, and Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* as of and for the year ended December 31, 2005.

The Management's Discussion and Analysis on pages 3 to 11 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the foregoing table of contents, which is also the responsibility of the City's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information (pages 33 through 36) has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly presented, in all material respects, when considered in relation to the financial statements taken as a whole.

The statistical information (pages 37 through 46) is also presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such statistical information has not been subject to auditing procedures and, accordingly, we do not express an opinion on it.

Deloitte + Touche LLP

June 21, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

($ IN THOUSANDS)

This following discussion and analysis of the Airport's performance provides an introduction and overview of the Airport's financial activities for the fiscal years ended December 31, 2005 and 2004. Please read this discussion in conjunction with the Airport's basic financial statements and the notes to basic financial statements following this section.

FINANCIAL HIGHLIGHTS

2005

- Operating revenues for 2005 increased by $6,620 compared to prior year operating revenues. This increase is principally due to increased landing fees and other rentals and fueling system charges.

- Operating expenses before depreciation and amortization increased by $6,696 compared to 2004, primarily due to increased repairs and maintenance, professional and engineering and other operating expenses.

- The Airport's total net assets at December 31, 2005 were $308,352. This is a decrease of $27,568 compared to total net assets at December 31, 2004.

- Capital asset additions for 2005 were $64,319, principally due to the Terminal Development Program construction activities.

- Total outstanding revenue bonds, net of unamortized discount and loss on refunding, at December 31, 2005 were $1,259,817.

2004

- Operating revenues for 2004 increased by $6,635 compared to prior year operating revenues. This increase is principally due to increased landing fees and other rentals and fueling system charges.

- Operating expenses before depreciation and amortization decreased by $1,662 compared to 2003 primarily due to decreased salaries and wages and decreased pension costs.

- The Airport's total net assets at December 31, 2004 were $335,920. This is a decrease of $1,248 compared to total net assets at December 31, 2003.

- Capital asset additions for 2004 were $102,293, principally due to the Terminal Development Program construction activities.

- Total outstanding revenue bonds and notes, net of unamortized discount and loss on refunding, at December 31, 2004 were $1,265,485.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Airport's basic financial statements. The Airport's basic financial statements are comprised of the financial statements and the notes to financial statements. In addition to the basic financial statements this report also presents additional and statistical information after the notes to basic financial statements.

The Statements of Net Assets present all of the Airport's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by private-sector companies. The difference between assets and liabilities is reported as net assets. The increase or decrease in net assets may serve as an indicator, over time, whether the Airport's financial position is improving or deteriorating. However, the consideration of other non-financial factors such as changes within the airline industry may be necessary in the assessment of overall financial position and health of the Airport.

The Statements of Revenues, Expenses and Changes in Net Assets present all current fiscal year revenues and expenses, regardless of when cash is received or paid, and the ensuing change in net assets.

The Statements of Cash Flows report how cash and cash equivalents are provided and used by the Airport's operating, capital financing and investing activities. These statements are prepared on a cash basis and present the cash received and disbursed, the net increase or decrease in cash and cash equivalents for the year and the cash and cash equivalents balance at year-end.

The Notes to Basic Financial Statements are an integral part of the basic financial statements; accordingly, such disclosures are essential to a full understanding of the information provided in the basic financial statements.

In addition to the basic financial statements, this report includes Additional and Statistical Information. The Additional Information section presents debt service coverage calculations and the Statistical Information section includes certain unaudited information related to the Airport's historical financial and non-financial operating results and capital activities.

FINANCIAL ANALYSIS

Landing fees and terminal area use charges and fueling system charges are assessed to the various airlines throughout each fiscal year based on estimated rates. Such rates are designed to yield collections from airlines adequate to cover certain operating expenses and required debt service and fund deposits as determined under provisions of the Airport Use Agreement and Facilities Leases (Use Agreement). Incremental amounts due from the airlines arise when amounts assessed, based on the estimated rates used during the year, are less than actual expenses and required deposits for the year. Such incremental amounts due from airlines are included in accrued revenue. Incremental amounts due to the airlines arise when amounts assessed, based on the estimated rates used during the year, exceed actual expenses and required deposits for the year. Such incremental amounts due to airlines are included in deferred revenue.

At December 31, 2005, the Airport's financial position continued to be strong with total assets of $1,671,463, total liabilities of $1,363,111 and net assets of $308,352. A comparative condensed summary of the Airport's net assets at December 31, 2005, 2004, and 2003 is as follows:

	Net Assets		
	2005	2004	2003
Current assets	$ 79,249	$ 53,912	$ 38,506
Noncurrent assets:			
Restricted and other assets	477,322	572,653	547,787
Capital assets—net	1,114,892	1,082,274	997,674
Total noncurrent assets	1,592,214	1,654,927	1,545,461
Total assets	$ 1,671,463	$ 1,708,839	$ 1,583,967
Current liabilites	$ 44,270	$ 31,341	$ 25,106
Noncurrent liabilities	1,318,841	1,341,578	1,221,693
Total liabilities	$ 1,363,111	$ 1,372,919	$ 1,246,799
Net assets:			
Invested in capital assets, net of related debt	$ 73,843	$ 105,782	$ 102,234
Restricted	199,531	207,566	226,320
Unrestricted	34,978	22,572	8,614
Total net assets	$ 308,352	$ 335,920	$ 337,168

2005

Current assets increased by $25,337 (47.0 percent) due to increased cash and cash equivalents and investment balances at December 31, 2005. This increase was primarily due to the collection of additional revenue, deferred revenue and advances on terminal rent offset by payments for accounts payable and due to other City funds. The Airport's current ratio (current assets/current liabilities) at December 31, 2005 and 2004 was 1.79:1 and 1.72:1, respectively. Restricted and other assets decreased by $95,331 (16.65 percent) mainly due to the payment of construction costs and the use of capitalized interest for payments on debt service. Capital assets increased by $32,618 (3.0 percent) due principally to ongoing capital activities of the Capital Improvement Plan and the Terminal Development Program.

The increase in current liabilities of $12,929 (41.2 percent) is directly related to the increased accounts payable ($4,578), due to other City funds liability ($1,664) and deferred revenue ($6,687). Noncurrent liabilities decreased by $22,737 (1.7 percent) mainly as a result of the reduced accounts payable of $17,869 and the payment of $7,425 of revenue bonds payable offset by a slight increase in interest payable at year-end.

Net assets may serve, over a period of time, a useful indicator of the Airport's financial position. At December 31, 2005, total net assets were $308,352 a decrease of $27,568 (8.2 percent) over 2004. Due to the residual Airport use agreement this decrease is mainly due to the use of Airport fund balance to reduce net airline requirements.

2004

Current assets increased by $15,406 (40.0 percent) due to increased cash and cash equivalents and investment balances and accounts receivable balances at December 31, 2004. This increase was primarily due to the collection of additional revenue, deferred revenue and advances on terminal rent offset by payments for accounts payable and due to other City funds. The Airport's current ratio (current assets/current liabilities) at December 31, 2004 and 2003 was 1.72:1 and 1.53:1, respectively. Restricted and other assets increased by $24,866 (4.5 percent) mainly due to increased grant receivables of approximately $16,500 and increased deferred soundproofing and financing fees of approximately $5,000. Capital assets increased by $84,600 (8.5 percent) due principally to capital activities of the Terminal Development Program.

The increase in current liabilities of $6,235 (24.8 percent) is directly related to the increase in airline deferred revenue of $8,046 offset by the reduction in accounts payable and due to other city funds of $1,811. Noncurrent liabilities increased by $119,885 (9.8 percent) mainly as a result of the issuance of the Chicago Midway Airport Revenue Bonds, Series 2004 C and D ($152,100) offset by the refunding of commercial paper ($25,500) and the January 1, 2004 bond principal payment of $6,610.

Net assets may serve, over a period of time, a useful indicator of the Airport's financial position. At December 31, 2004, total net assets were $335,920 a decrease of $1,248 (.4 percent) over 2003. Due to the residual Airport use agreement this decrease is mainly due to the use of Airport discretionary funds to reduce net airline requirements.

The primary sources of Airport operating revenues are landing fees, terminal area use charges, rents and concession revenues as defined within the Airline Use Agreement and Facilities Lease. These revenues fund Airport operating expenses, fund deposits and net debt service requirements. A comparative condensed summary of the Airport's changes in net assets for the years ended December 31, 2005, 2004 and 2003 is as follows:

	Changes in Net Assets		
	2005	**2004**	**2003**
Operating revenues:			
Landing fees and terminal area uses charges	$ 32,847	$ 29,299	$ 26,613
Rents, concessions and other	59,381	56,309	52,360
Total operating revenues	92,228	85,608	78,973
Operating expenses:			
Salaries and wages	32,259	32,316	36,582
Repairs and maintenance	31,690	28,065	26,771
Professional and engineering	11,274	10,678	9,214
Other operating expenses	13,004	10,472	10,626
Depreciation and amortization	35,677	20,994	18,813
Total operating expenses	123,904	102,525	102,006
Operating loss	(31,676)	(16,917)	(23,033)
Nonoperating revenues	34,060	30,694	29,474
Nonoperating expenses	(48,035)	(36,603)	(28,244)
Capital grants	18,083	21,578	17,071
Increase in net assets	$ (27,568)	$ (1,248)	$ (4,732)

2005

Landing fees and terminal area use charges for the years 2005 and 2004 were $32,847 and $29,299, respectively. Rents, concessions and other revenues were $59,381 and $56,309 for the years 2005 and 2004, respectively. The increase in 2005 operating revenues of $6,620 (7.7 percent) over 2004 was primarily due to an increase in terminal use charges and other rentals and concession revenues of approximately $5,400 and $1,200 respectively. Such increases were due to the residual Airport Use Agreement and Facilities Leases that requires airline revenue to be recognized to the extent necessary to pay the Airport's operating and maintenance expenses, net debt service and fund deposit requirements, reduced by non-airline revenues.

Salaries and wages remained flat in 2005 compared to 2004. The increase in repairs and maintenance of $3,625 (12.9 percent) was primarily due to increased shuttle bus service costs ($800), snow removal costs ($600), water reclamation fees ($400), airfield asphalt repairs ($400), property management costs ($200) and equipment repair and maintenance costs ($200). Professional and engineering expenses increased by $596 (5.6 percent) as a result of increased legal fees related to bankruptcies and parking management costs of approximately $250 and $350, respectively. Other operating expenses increased by $2,532 (24.2 percent) primarily due to increased insurance costs of approximately $300, increased gas and electric charges of approximately $900 and $200, respectively, increased de-icer fluid costs of approximately $500, and increased provision for doubtful accounts of approximately $300. Depreciation and amortization expense increased $14,683 (69.9 percent) as a result of the increased capital assets due to activities of the Terminal Development Program.

Fiscal year 2005 nonoperating revenues of $34,060 are comprised mainly of passenger facility charges ("PFC") revenue ($23,292), customer facility charges ("CFC") revenue ($2,125) and interest income ($7,866). During 2005, nonoperating revenues increased by $3,366 principally due to the increased interest income of $3,979, increased CFC revenues of $2,125 offset by decreased PFC revenue of $2,733. Interest income increased mainly due to higher interest rate yields on construction and debt service cash and investment trustee accounts. PFC revenues decreased due to decreased passenger traffic at the airport.

Nonoperating expenses of $48,035 and $36,603 for the years 2005 and 2004, respectively, were comprised of PFC and bond interest expenses. The increase of $11,432 (31.2 percent) for 2005 over 2004 was mainly due to additional interest expense requirements due to bonds issued in 2004 and less capitalized interest captured as capital projects are completed.

Capital grants, mainly comprising of federal grants, decreased to $18,083 in 2005 from $21,578 in 2004, a 16.2 percent decrease, as a result of when capital expenditures were incurred and thus became eligible for the related reimbursement.

2004

Landing fees and terminal area use charges for the years 2004 and 2003 were $29,299 and $26,613, respectively. Rents, concessions and other revenues were $56,309 and $52,360 for the years 2004 and 2003, respectively. The increase in 2004 operating revenues of $6,635 (8.4 percent) over 2003 was primarily due to an increase in landing fees, terminal use charges and other rentals and concession revenues of approximately $1,000, $1,600 and $4,000 respectively. Such increases were due to the residual Airport Use Agreement and Facilities Leases that requires airline revenue to be recognized to the extent necessary to pay the Airport's operating and maintenance expenses, net debt service and fund deposit requirements, reduced by non-airline revenues.

Salaries and wages decreased in 2004 by $4,266 (11.7 percent) as a result of the City's early retirement incentive program, unfilled vacant positions and reductions in pension and health care costs. The increase in repairs and maintenance of $1,294 (4.8 percent) was primarily due to the maintenance costs of operating the new terminal. Professional and engineering expenses increased by $1,464 (15.9 percent) as a result of approximately $700 of additional parking management costs for the 77th street parking lot and approximately $600 for additional consulting fees related to the ongoing operations of the Airport. Depreciation and amortization expense increased $2,181 (11.6 percent) as a result of the increased capital assets due to activities of the Terminal Development Program.

Fiscal year 2004 nonoperating revenues of $30,694 are comprised mainly of passenger facility charges ("PFC") revenue ($26,025) and interest income ($3,887). During 2004, nonoperating revenues increased by $1,220 principally due to the increased interest income of $428 and increased PFC revenue of $786. Interest income increased mainly due to slightly higher balances and interest rate yields on construction and debt service cash and investment trustee accounts. PFC revenues increased due to increased passenger traffic at the airport.

Nonoperating expenses of $36,603 and $28,244 for the years 2004 and 2003, respectively, were comprised of PFC and bond interest expenses. The increase of $8,359 (29.6 percent) for 2004 over 2003 was mainly due to additional interest expense requirements due to bonds issued in 2004 and less capitalized interest captured as capital projects are completed.

Capital grants, mainly comprising of federal grants, increased to $21,578 in 2004 from $17,071 in 2003, a 26.4 percent increase, as a result of when capital expenditures were incurred and thus became eligible for the related reimbursement.

A comparative summary of the Airport's cash flows for the years ended December 31, 2005, 2004, and 2003 is as follows:

	Cash Flows		
	2005	2004	2003
Cash from activities:			
Operating	$ 15,115	$ 6,891	$ (5,761)
Capital and related financing	(83,262)	1,110	(113,634)
Investing	28,641	(43,507)	88,415
Net change in cash and cash equivalents	(39,506)	(35,506)	(30,980)
Cash and cash equivalents:			
Beginning of year	304,365	339,871	370,851
End of year	$ 264,859	$ 304,365	$ 339,871

2005

As of December 31, 2005 the Airport's available cash and cash equivalents of $264,859 decreased by $39,506 compared to $304,365 at December 31, 2004 due to an increase of cash of $8,224 and $72,148 from operating and investing activities, respectively, offset by a decrease of cash from capital and related financing activities of $84,372. Total cash and cash equivalents at December 31, 2005 were comprised of unrestricted and restricted cash and cash equivalents of $53,281 and $211,578, respectively.

2004

As of December 31, 2004 the Airport's available cash and cash equivalents of $304,365 decreased by $35,506 compared to $339,871 at December 31, 2003 due to an increase of cash of $12,652 and $114,744 from operating and capital and related financing activities, respectively, offset by a decrease of cash from investing activities $131,922. Total cash and cash equivalents at December 31, 2004 were comprised of unrestricted and restricted cash and cash equivalents of $39,269 and $265,096, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2005 and 2004 the Airport had $1,114,892 and $1,082,274, respectively, invested in net capital assets. During 2005, the Airport had additions of $64,319 related to capital activities. This included $63 for land acquisition and the balance of $64,256 for construction projects, for the terminal improvements, airside apron pavement, parking and roadway improvements.

During 2005, completed projects totaling $37,028 were transferred from construction in progress to applicable building and other facilities capital account. These major completed projects were related to fuel storage facilities, roadway rehab parking and terminal improvements.

The Airport's capital assets at December 31, 2005, 2004, and 2003 are summarized as follows:

	Capital Assets at Year-end		
	2005	2004	2003
Capital assets not depreciated:			
Land	$ 100,903	$ 100,840	$ 100,257
Contruction in progress	114,906	87,678	413,358
Total capital assets not depreciated	215,809	188,518	513,615
Capital assets depreciated:			
Buildings and other facilities	1,044,383	1,007,355	579,964
Less accumulated depreciation for:			
Buildings and other facilities	(145,300)	(113,599)	(95,904)
Total capital assets depreciated—net	899,083	893,756	484,060
Total property and facilities—net	$ 1,114,892	$ 1,082,274	$ 997,675

The Airport's capital activities are funded through Airport revenue bonds, federal and state grants, passenger facility charges ("PFC") and Airport revenue. Additional information on the Airport's capital assets is presented in Note 5 of the notes to the financial statements.

The Airport did not issue bonds during 2005. In December 2004, the Airport sold $228,715 of Chicago Midway Airport Second Lien Refunding Revenue Bonds, Series 2004 A-D. The bonds have maturity and mandatory redemption dates ranging from January 1, 2010 to January 1, 2035. Certain net proceeds refunded certain outstanding bonds and commercial paper notes and were used to finance certain capital improvements at the Airport. The Airport's revenue bonds payable at December 31, 2005 and 2004 is summarized as follows:

	Outstanding Debt at Year-end		
	2005	2004	2003
Revenue bonds	$ 1,279,455	$ 1,286,880	$ 1,170,963
Unamortized:			
Bond discount	(10,681)	(11,288)	(18,133)
Deferred loss on refunding	(8,957)	(10,107)	(4,200)
	1,259,817	1,265,485	1,148,630
Current bonds payable	(7,340)	(7,425)	(6,610)
Total long-term revenue bonds payable—net	$ 1,252,477	$ 1,258,060	$ 1,142,020

Additional information on the Airport's long-term debt is presented in Note 4 of the notes to basic financial statements and in the Statistical Information section of this report.

The Airport‘s revenue bonds at December 31, 2005 and 2004 had credit ratings with each of the three major rating agencies as follows:

	Moody's Investor Services	Standard & Poor's	Fitch Ratings
First Lien Chicago Midway Revenue Bonds	A2	A	A+
Second Lien Chicago Midway Revenue Bonds	A3	A-	A

At December 31, 2005 and 2004 the Airport was in compliance with the debt covenants as stated within the Master Trust Indentures.

ECONOMIC FACTORS AND NEXT YEAR RATES AND CHARGES

The airlines using Chicago Midway International Airport generally provide low fare, point-to-point origination and destination passenger service. During 2004 Southwest Airlines and American Trans Air (ATA) accounted for 41.2 percent and 38.1 percent, respectively, of total emplanements at the Airport. In October 2004, ATA filed for bankruptcy protection. ATA subsequently reduced its operations substantially at Midway and transferred the majority of its leasehold rights at Midway to Southwest Airlines. During 2005, Southwest Airlines and ATA accounted for 63.7 percent and 19.6 percent, respectively, of total enplanements at the airport.

Based on the Airport's rates and charges for fiscal year 2006, total budgeted operating and maintenance expenses are projected at $101,303 and total net debt service and fund deposit requirements are projected at $14,876. Additionally, 2006 non-airline and non-signatory revenues are budgeted for $55,115, resulting in a net airline requirement of $61,064 that will be funded through landing fees, terminal area use charges, and fueling system charges.

REQUESTS FOR INFORMATION

This financial report is designed to provide the reader with a general overview of the Airport's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Chicago Comptroller's Office.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

STATEMENTS OF NET ASSETS
DECEMBER 31, 2005 AND 2004
($ IN THOUSANDS)

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 53,281	$ 39,269
Investments (Note 2)	15,232	5,994
Accounts receivable, net of allowance for doubtful accounts of approximately $785 in 2005 and $631 in 2004	6,255	6,776
Due from other City funds	3,625	1,205
Prepaid expenses	523	606
Interest receivable	333	62
Total current assets	79,249	53,912
NONCURRENT ASSETS:		
Restricted assets (Note 3):		
Cash and cash equivalents (Note 2)	211,578	265,096
Investments (Note 2)	201,958	225,905
Due from other governments	58	21,454
Passenger facility charges receivable (Note 1)	3,871	3,329
Interest receivable	1,651	1,720
Total restricted assets	419,116	517,504
Other assets		
Deferred soundproofing & financing fees	58,206	55,149
Property and facilities (Note 5):		
Land	100,903	100,840
Buildings and other facilities	1,044,383	1,007,355
Construction in progress	114,906	87,678
Total property and facilities	1,260,192	1,195,873
Less accumulated depreciation	145,300	113,599
Property and facilities—net	1,114,892	1,082,274
Total noncurrent assets	1,592,214	1,654,927
TOTAL	$ 1,671,463	$ 1,708,839

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 14,728	$ 10,150
Due to other City funds	4,400	2,736
Deferred revenue	25,142	18,455
Total current liabilities	44,270	31,341
NONCURRENT LIABILITIES:		
Liabilities payable from restricted assets (Note 3):		
Revenue bond payable (Note 4)	7,340	7,425
Interest rate swap premium (Note 4)	18,516	19,292
Accounts payable	15,042	32,911
Due to other City funds	532	590
Interest payable	24,934	23,300
Total liabilities payable from restricted assets	66,364	83,518
Revenue bonds payable—net of discount (Note 4)	1,252,477	1,258,060
Total noncurrent liabilities	1,318,841	1,341,578
TOTAL LIABILITIES	$ 1,363,111	$ 1,372,919
NET ASSETS (Note 1):		
Invested in capital assets—net of related debt	$ 73,843	$ 105,782
Restricted net assets:		
Debt service	1,369	2,442
Capital projects	35,941	57,753
Passenger facility charges	37,023	51,511
Airport use agreement	42,492	38,728
Other assets	82,706	57,132
Total restricted net assets	199,531	207,566
Unrestricted net assets	34,978	22,572
TOTAL	$ 308,352	$ 335,920

See notes to basic financial statements.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004
($ IN THOUSANDS)

	2005	2004
OPERATING REVENUES:		
Landing fees and terminal area use charges (Note 1)	$ 32,847	$ 29,299
Rents, concessions and other (Note 6)	59,381	56,309
Total operating revenues	92,228	85,608
OPERATING EXPENSES (Notes 7 and 8):		
Salaries and wages	32,259	32,316
Repairs and maintenance	31,690	28,065
Professional and engineering services	11,274	10,678
Other operating expenses	13,004	10,472
Total operating expenses before depreciation and amortization	88,227	81,531
Depreciation and amortization	35,677	20,994
Total operating expenses	123,904	102,525
OPERATING LOSS	(31,676)	(16,917)
NONOPERATING REVENUES (EXPENSES):		
Passenger facility charges revenues	23,292	26,025
Passenger facility charges expenses	(980)	(725)
Customer facility charges revenues	2,125	
Interest income	7,866	3,887
Interest expense (Note 4)	(47,055)	(35,878)
Other nonoperating revenues	777	782
Total nonoperating (expenses) revenues	(13,975)	(5,909)
(LOSS) INCOME BEFORE CAPITAL GRANTS	(45,651)	(22,826)
CAPITAL GRANTS (Note 1)	18,083	21,578
CHANGE IN NET ASSETS	(27,568)	(1,248)
TOTAL NET ASSETS—Beginning of year	335,920	337,168
TOTAL NET ASSETS—End of year	$ 308,352	$ 335,920

See notes to basic financial statements.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004
($ IN THOUSANDS)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Landing fees and terminal area use charges	$ 40,700	$ 31,127
Rents, concessions and other	59,199	60,424
Payments to vendors	(48,759)	(48,907)
Payments to employees	(29,973)	(28,263)
Transactions with other City funds—net	(6,052)	(7,490)
Cash flows from operating activities	15,115	6,891
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of bonds		233,490
Payment to refund bonds		(87,862)
Payment to refund commercial paper		(25,826)
Acquisition and construction of capital assets	(73,065)	(78,403)
Grant receipts	39,480	5,196
Bond issuance costs		(3,348)
Principal paid on bonds	(7,425)	(6,610)
Interest paid	(58,575)	(55,247)
Cash paid for noise mitigation program	(7,570)	(4,974)
Passenger facility charges revenues	22,749	25,419
Customer facility charges revenues	2,124	
Passenger facility charges expenses	(980)	(725)
Cash flows (used in) from capital and related financing activities	(83,262)	1,110
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales (purchases) of investments, net	14,709	(49,570)
Investment interest	13,932	6,063
Cash flows from (used in) investing activities	28,641	(43,507)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(39,506)	(35,506)
CASH AND CASH EQUIVALENTS—Beginning of year	304,365	339,871
CASH AND CASH EQUIVALENTS—End of year	$ 264,859	$ 304,365

See notes to basic financial statements

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004
($ IN THOUSANDS)

	2005	2004
RECONCILIATION OF CASH AND CASH EQUIVALENTS REPORTED ON THE BALANCE SHEETS:		
Unrestricted	$ 53,281	$ 39,269
Restricted	211,578	265,096
TOTAL	$ 264,859	$ 304,365
RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (31,676)	$ (16,917)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation and amortization	35,677	20,994
Provision for uncollectible accounts	463	157
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	58	(2,103)
Increase in due from other City funds	(2,419)	(1,162)
Decrease (increase) in prepaid expenses	83	(313)
Increase (decrease) in due to other City funds	1,664	(933)
Increase in deferred revenue	6,687	8,046
Increase (decrease) in accounts payable and accrued liabilities	4,578	(878)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	$ 15,115	$ 6,891

SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS:
Property additions in 2005 and 2004 of $12,300 and $49,207, respectively, are included in accounts payable.

The fair market value adjustment to investments for 2005 was a loss of $2,416.

See notes to basic financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Chicago Midway International Airport (Airport) is operated by the City of Chicago ("City") Department of Aviation. The Airport is included in the City's reporting entity as an Enterprise Fund. The City is a member of the Chicago-Gary Regional Airport Authority, which was created in 1995 to address the air transportation needs of the Chicago-Northwest Indiana Region.

Basis of Accounting and Measurement Focus—The accounting policies of the Airport are based upon accounting principles generally accepted in the United States of America, as prescribed by the Government Accounting Standards Board ("GASB"). For the year ended December 31, 2005, the Airport adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounts of the Airport are reported using the flow of economic resources measurement focus.

The Airport uses the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when incurred. Enterprise funds may elect to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, provided that such standards are not in conflict with standards issued by the Governmental Accounting Standards Board ("GASB"). The Airport has elected not to apply FASB pronouncements issued after November 30, 1989.

Annual Appropriated Budget—The Airport has a legally adopted annual budget, which is not required to be reported.

Management's 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 the estimates.

Cash, Cash Equivalents and Investments—Cash, cash equivalents and investments generally are held with the City Treasurer as required by the Municipal Code of Chicago ("Code"). Interest earned on pooled investments is allocated to participating funds based upon their average combined cash and investment balances. Due to contractual agreements or legal restrictions, the cash and investments of certain funds are segregated and earn and receive interest directly.

The Code permits deposits only to City Council-approved depositories which must be regularly organized state or national banks and federal and state savings and loan associations, located within the City, whose deposits are federally insured.

Investments authorized by the Code include interest-bearing general obligations of the City, the State of Illinois (State) and the U.S. Government; U.S. treasury bills and other non-interest-bearing general obligations of the U.S. Government purchased in the open market below face value; domestic money market mutual funds regulated by and in good standing with the Securities and Exchange Commission and tax anticipation warrants issued by the City. The City is prohibited by ordinance from investing in derivatives, as defined, without City Council approval.

The Airport values its investments at fair value or amortized cost as applicable. U.S. Government securities purchased at a price other than par with a maturity of less than one year are reported at amortized cost.

Repurchase agreements can be purchased only from banks and certain other institutions authorized to do business in the State. The City Treasurer requires that securities pledged to secure these agreements have a market value equal to the cost of the repurchase agreements plus accrued interest.

Investments generally may not have a maturity in excess of one year from the date of purchase. Certain other investment balances are held in accordance with the specific provisions of applicable bond ordinances.

Cash equivalents include certificates of deposit and other investments with maturities of three months or less when purchased.

***Accounts Receivable Allowance*—**Management has provided an allowance based on amounts recorded at year-end, which may be uncollectible.

***Revenues and Expenses*—**Revenues from landing fees, terminal area use charges, fueling system charges, parking revenue and concessions are reported as operating revenues. Transactions that are related to financing, investing and passenger facility charges are reported as non-operating revenues. Salaries and wages, repair and maintenance, professional and engineering services and other expenses that relate to Airport operations are reported as operating expenses. Interest expense, passenger facility charge expenses and financing costs are reported as non-operating expenses.

***Transactions with the City*—**The City's General Fund provides services to the Airport. The amounts allocated to the Airport for these services are treated as operating expenses and consist mainly of employee benefits, self-insured risks and administrative expenses.

***Other Assets*—**Funds expended for the Noise Mitigation Program are recorded as other assets and amortized over a 20-year useful life on a straight-line basis.

***Property and Facilities*—**Property and facilities are recorded at cost or, for donated assets, at market value at the date of acquisition. Expenditures greater than $5,000 for the acquisition, construction or equipping of capital projects, together with related design, architectural and engineering fees, are capitalized. Expenditures for vehicles and other movable equipment are expensed as incurred.

Depreciation and amortization are provided using the straight-line method and begin in the year following the year of acquisition or completion. Estimated useful lives are as follows:

Facilities and structures	40 years
Runways, aprons, tunnels, taxiways and paved roads	30 years
Other	10-30 years

Net Assets**—**Net Assets comprise the net earnings from operating and non-operating revenues, expenses and capital grants. Net assets are displayed in three components—invested in capital assets, net of related debt; restricted for debt service, capital projects, passenger facility charges, airport use agreement requirements and other assets; and unrestricted. Invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt net of debt service reserve and unspent proceeds. Restricted net assets consist of net assets for which constraints are placed thereon by external parties (such as lenders and grantors) and laws, regulations and enabling legislation. Unrestricted net assets consist of all other net assets not categorized as either of the above.

Employee Benefits**—**Employee benefits are granted for vacation and sick leave, workers' compensation and health care. Unused vacation leave is accrued and may be carried over for one year. Sick leave is accumulated at the rate of one day for each month worked, up to a maximum of 200 days. Severance of employment terminates all rights to receive compensation for any unused sick leave. Sick leave pay is not accrued. Employee benefit claims outstanding, including claims incurred but not reported, are estimated and recorded as liabilities. The Airport maintains insurance from a commercial carrier for workers compensations claims. Settlements in each of the past three years have been less than insurance coverage maintained.

Employees are eligible to defer a portion of their salaries until future years under the City's deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is administered by third-party administrators who maintain the investment portfolio. The plan's assets have been placed in trust accounts with the plan administrators for the exclusive benefit of participants and their beneficiaries and are not considered assets of the City.

The City is subject to the State of Illinois Unemployment Compensation Act and has elected the reimbursing employer option for providing unemployment insurance benefits for eligible former employees. Under this option, the City reimburses the State for claims paid by the State.

Bond Issuance Costs, Bond Discounts and Refunding Transactions**—**Bond issuance costs and bond discounts are deferred and amortized over the life of the related debt, except in the case of refunding debt transactions where the amortization period is over the term of the refunding or refunded debt, whichever is shorter.

Capitalized Interest**—**Interest expense and income earned on construction bond proceeds are capitalized during construction on those capital projects paid for from the bond proceeds and are being amortized over the depreciable lives of the related assets on a straight-line basis.

Capital Grants**—**The Airport reports capital grants as revenue on the Statements of Revenues, Expenses and Changes in Net Assets. Capital Grants are on a reimbursement basis and revenues are recognized to the extent of allowable expenditures.

Revenue Recognition**—**Landing fees and terminal area use charges and fueling system charges are assessed to the various airlines throughout each fiscal year based on estimated rates. Such rates are designed to yield collections from airlines adequate to cover certain expenses and required debt service and fund deposits as determined under provisions of the Airport Use Agreement and Facilities Leases (Use Agreement). Incremental amounts due from the airlines arise when amounts assessed, based on the estimated rates used during the year, are less than actual expenses and required deposits for the year. Such incremental amounts due from airlines are included in accrued revenue. Incremental amounts due to the airlines arise when amounts assessed, based on the estimated rates used during the year, exceed actual expenses and required deposits for the year. Such incremental amounts due to airlines are included in deferred revenue.

Passenger Facility Charge (PFC) Revenue—PFCs of $3.00 per eligible enplaned passenger, less allowable airline administrative costs of $.11 per eligible enplaned passenger, are imposed by the Airport. PFCs are available, subject to Federal Aviation Administration regulation and approval, to finance specific eligible capital projects. The City reports PFC revenue as nonoperating revenue and related expenses as nonoperating expenses in conformity with industry practice.

2. RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS AND INVESTMENTS

Investments As of December 31, 2005, the Airport had the following Investments ($ in thousands):

Investment Type	Investment Maturities (in Years)				
Airport Funds	**Less Than 1**	**1-5**	**6-10**	**More Than 10**	**Fair Value**
U.S. Agencies	$ 259,246	$ 77,191	$ -	$ -	$ 336,437
Certificates of Deposits and Other Short-term	152,225	-	-	-	152,225
Subtotal	$ 411,471	$ 77,191	$ -	$ -	488,662
Share of City's pooled funds					929
Total					$ 489,591

Interest Rate Risk As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy requires that investments generally may not have a maturity date in excess of two years from the date of purchase. Certain other investments are held in accordance with the specific provisions of applicable ordinances.

Credit Risk The Code limits investments in commercial paper to banks whose senior obligations are rated in the top two rating categories by at least two national rating agencies and who are required to maintain such rating during the term of such investment. The Code also limits investments to domestic money market mutual funds regulated by, and in good standing with, the Securities and Exchange Commission. Certificates of Deposit are also limited by the Code to national banks which provide collateral of at least 110 percent by marketable U.S. government securities marked to market at least monthly; or secured by a corporate surety bond issued by an insurance company licensed to do business in Illinois and having a claims-paying rating in the top rating category, as rated by a nationally recognized statistical rating organization maintaining such rating during the term of such investment. The following schedule summarizes the Airports exposure to credit risk ($ in thousands):

Quality Rating	Airport
Aaa/AAA	$ 406,842
Not Rated	81,820
Total Funds	$ 488,662

The Airport participates in the City's pooled cash and investments account which includes amounts from other City funds and is maintained by the City Treasurer. Individual cash or investments are not specifically identifiable to any participant in the pool. The Treasurer's pooled fund is included in the City's Comprehensive Annual Financial Report.

Custodial Credit Risk – Cash and Certificates of Deposit This is the risk that in the event of a bank failure, the City's deposits may not be returned. The City's Investment Policy states that in order to protect the City public fund deposits, depository institutions are to maintain collateral pledges on City deposits during the term of the deposit of at least 110 percent of marketable U.S. government, or approved securities or surety bonds, issued by top-rated insurers. Collateral is required as security whenever deposits exceed the insured limits of the FDIC. Cash and certificates of deposit with the City's various municipal depositories were $151.5 million and $104.0 million respectively at December 31, 2005 and the related bank balance (including certificates of deposit) was $169.6 million. Of the bank balance, $168.4 million or 99.3 percent, was either insured or collateralized with securities held by City agents in the City's name. The remainder was uninsured and uncollateralized.

The following schedule summarizes the investments reported in the basic financial statements ($ in thousands):

Per Note 2:		
Investments - Airport	$	488,662
Investments - City Treasurer Pooled Fund		929
	$	489,591
Per Financial Statements:		
Restricted Investments	$	201,958
Unrestricted Investments		15,232
Investments included as cash and cash equivalents on the Statements of Net Assets		272,401
	$	489,591

3. RESTRICTED ASSETS

There are various limitations and restrictions contained in the Master Indenture of Trust securing the Chicago Midway Airport Revenue Bonds (First Lien Master Indenture) and the Master Indenture of Trust securing the Chicago Midway Airport Second Lien Obligation (Second Lien Master Indenture) and together with the First Lien Master Indenture (Master Indentures), the Use Agreement and federal regulations contain various limitations and restrictions which, among other things, require the creation and maintenance of separate accounts, certain of which must be held by a trustee and into which required deposits are made by the Airport on a periodic basis to fund construction, debt retirement, operation and maintenance and contingencies.

Restricted cash, cash equivalents and investment balances in accordance with the Master Indenture requirements are as follows ($ in thousands):

Account	December 31 2005	 2004
Construction	$ 190,825	$ 264,292
Capitalized interest	12,357	27,677
Debt service	33,500	32,532
Debt service reserve	66,363	66,363
Operation and maintenance reserve	16,081	14,930
Repair and replacement	3,859	2,119
Emergency reserve	323	306
Special projects	22,432	21,766
Other	34,799	12,832
Subtotal—Master Indentures and Use Agreement accounts	380,539	442,817
Passenger facility charges	32,997	48,184
Total	$ 413,536	$ 491,001

Construction and capitalized interest accounts, which are funded with bond proceeds, are restricted to pay authorized capital improvements and related interest costs during construction.

Required deposits are made by the Airport from revenues collected after funding deposits to an operation and maintenance account in the following priority on a monthly basis:

- The debt service account is restricted to the payment of debt service.
- The operation and maintenance reserve account is restricted to make loans to the operation and maintenance account, as needed, which are to be repaid as the funds become available.

The working capital account, which is recorded in unrestricted cash and cash equivalents, had a balance of $1,810 at December 31, 2005 and 2004, respectively.

The debt service reserve account requirement was funded upon issuance of the Series 1994 bonds with a surety bond, and upon issuance of the Series 1996 bonds and Series 1998 first and second lien bonds with a cash deposit. The debt service reserve account is restricted to the payment of debt service in the event that the balance in the debt service account is insufficient.

The junior lien obligation debt service fund is required to be established to record all transactions associated with junior lien obligations per the First Lien Master Indenture.

The repair and replacement account must be used for paying the cost of maintenance expenditures, such as costs incurred for major repairs, renewals and replacements at the Airport whether caused by normal wear and tear or by unusual and extraordinary occurrences.

The emergency reserve account is restricted to make payments for certain purposes, including terminal area use charges, landing fees and certain other charges that are deemed uncollectible and also for any judgments or settlements against the Airport.

The City has entered into arbitrage agreements under which the City has agreed to comply with certain requirements of the Internal Revenue Code of 1986, as amended, in order to maintain the exclusion of the interest on the Bonds from the gross income of the recipients thereof for federal income tax purposes. The rebate account relating to each series of the Bonds has been established to account for any liability of the City to make arbitrage rebate payments to the federal government relating to such series of Bonds.

The special projects account is restricted to make payments of certain airline-approved capital expenditures.

The passenger facility charge account is restricted to fund eligible, approved PFC projects.

Other funds include the Federal and State Grant Funds, the security for payment fund, and the Airport development fund.

At December 31, 2005 and 2004, the Airport was in compliance with the funding requirements and restrictions as stated in the Master Indentures.

4. LONG-TERM DEBT

At December 31, 2005 and 2004, long-term debt consisted of the following ($ in thousands):

	2005	2004
First lien bonds:		
$81,250 Series 1994 A Chicago Midway Airport Revenue Bonds, issued May 5, 1994, due through 2024, interest at 5.0%–6.25%	$	$ 485
$148,820 Series 1996 A Chicago Midway Airport Revenue Bonds, issued November 7, 1996, due through 2029, interest at 4.8%–6.0%	70,650	73,305
$105,220 Series 1996 B Chicago Midway Airport Revenue Bonds, issued November 7, 1996, due through 2029, interest at 4.9%–6.5%	95,565	97,375
$397,715 Series 1998 A, B, and C Chicago Midway Airport Revenue Bonds, issued September 10, 1998, due through 2035, interest at 4.3%–5.5%	394,670	397,145
$295,855 Series 2001 A and B Chicago Midway Airport Revenue Bonds, issued September 13, 2001, due through 2031, interest at 5.0%–5.5%	295,855	295,855
Subtotal first lien bonds	856,740	864,165
Second lien bonds:		
$171,000 Series 1998 A and B Chicago Midway Airport Second Lien Revenue Bonds, issued September 16, 1998, due through 2029, variable floating interest rate (3.75 % at December 31, 2005)	171,000	171,000
$22,000 Series 2002 A Chicago Midway Airport Second Lien Revenue Bonds, issued February 13, 2002, due through 2021, variable floating interest rate (4.45 % at December 31, 2005)	22,000	22,000
$77,565 Series 2004 A and B Chicago Midway Airport Second Lien Revenue Bonds, issued December 14, 2004, due through 2024, interest rate at 3.20%–5.00 %	77,565	77,565
$152,150 Series 2004 C and D Chicago Midway Airport Second Lien Revenue Bonds, issued December 14, 2004, due through 2035, interest rate at 4.174 %	152,150	152,150
Subtotal second lien bonds	422,715	422,715
Total Revenue Bonds	1,279,455	1,286,880
Unamortized discount	(10,681)	(11,288)
Unamortized deferred loss on bond refunding	(8,957)	(10,107)
	1,259,817	1,265,485
Current portion	(7,340)	(7,425)
Total long-term revenue bonds payable	$ 1,252,477	$ 1,258,060

During the years ended December 31, 2005 and 2004, long-term debt changed as follows ($ in thousands):

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Revenue bonds	$ 1,286,880	$	$ (7,425)	$ 1,279,455	$ 7,340
Unamortized discount	(11,288)		607	(10,681)	
Deferred loss on refunding	(10,107)		1,150	(8,957)	
Total revenue bonds	1,265,485		(5,668)	1,259,817	7,340
Commercial Paper					
Total Long-term debt	$ 1,265,485	$	$ (5,668)	$ 1,259,817	$ 7,340

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004	Due Within One Year
Revenue bonds	$ 1,145,435	$ 229,715	$ (88,270)	$ 1,286,880	$ 7,425
Unamortized discount	(18,133)		6,845	(11,288)	
Deferred loss on refunding	(4,199)	(6,133)	225	(10,107)	
Total revenue bonds	1,123,103	223,582	(81,200)	1,265,485	7,425
Commercial Paper	25,528		(25,528)		
Total Long-term debt	$ 1,148,631	$ 223,582	$ (106,728)	$ 1,265,485	$ 7,425

Interest expense capitalized for 2005 and 2004 totaled $14.9 million and $18.5 million, respectively. Interest income capitalized for 2005 and 2004 totaled $6.3 million and $3.0 million, respectively. Interest expense includes amortization of the deferred loss on bond refunding for 2005 and 2004 of $1.2 million and $0.2 million, respectively, and amortization of bond discount for 2005 and 2004 of $6.1 million and $1.2 million, respectively.

Issuance of Debt—In December 2004, the Airport sold $77.6 million of Chicago Midway Airport Second Lien Revenue Refunding Bonds, Series 2004 A and B at a premium of $3.8 million. The bonds have interest rates ranging from 3.20 percent to 5.50 percent and maturity and mandatory redemption dates ranging from January 1, 2010 to January 1, 2024. Certain Series 2004 B Second Lien Revenue Refunding Bonds are subject to mandatory sinking fund redemption prior to maturity. Certain net proceeds of $80.0 million together with $7.8 million transferred from funds on hand were deposited in an escrow account to defease a portion of the Series 1994 A Bonds ($17.6 million) and a portion of the Series 1996 A Bonds ($64.0 million); and certain proceeds of $1.3 million were used to pay the cost of issuance of the bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $6.1 million that will be charged to operations over 2 to 19 years using the straight-line method. The advance refunding decreased the Airport’s total debt service payments by $13.6 million and resulted in an economic gain (difference between the present value of the old debt and the new debt service payments) of $4.5 million.

In December 2004, the Airport sold $152.1 million of Chicago Midway Airport Second Lien Revenue Bonds, Series 2004 C and D. The bonds have an interest rate of 4.174 percent and maturity and mandatory redemption dates ranging from January 1, 2012 to January 1, 2035. Certain Series 2004 C and D Second Lien Revenue Bonds are subject to mandatory sinking fund redemption prior to maturity. Certain net proceeds of $97.9 million will be used to finance the planning, design, acquisition, construction and equipping of various airport capital projects; certain proceeds of $25.9 million were used to pay all of the outstanding Commercial Paper Notes ($25.9 million); certain proceeds of $11.4 million were used to fund debt service reserve requirements; certain proceeds of $14.7 million were used to fund capitalized interest deposit requirements and certain proceeds of $2.3 million were used to pay the cost of issuance of the bonds.

Debt Redemption**—**Following is a schedule of debt service requirements to maturity of the first lien bonds ($ in thousands):

Year Ending December 31	Principal	Interest	Total
2006	$ 7,340	$ 44,671	$ 52,011
2007	13,620	44,098	57,718
2008	14,505	43,350	57,855
2009	15,260	42,567	57,827
2010	12,575	41,834	54,409
2011-2015	73,725	197,976	271,701
2016-2020	96,180	174,902	271,082
2021-2025	148,845	143,679	292,524
2026-2030	226,980	94,557	321,537
2031-2035	247,710	30,565	278,275
Total	$ 856,740	$ 858,199	$ 1,714,939

Following is a schedule of debt service requirements to maturity of the second lien bonds. For issues with variable rates, interest is imputed at the percent rate effective at December 31, 2005 ($ in thousands).

Year Ending December 31	Principal	Interest	Total
2006	$ -	$ 16,413	$ 16,413
2007		16,413	16,413
2008		16,413	16,413
2009		16,412	16,412
2010	3,475	16,337	19,812
2011-2015	40,415	77,400	117,815
2016-2020	55,315	66,892	122,207
2021-2025	69,510	50,616	120,126
2026-2030	207,950	33,633	241,583
2031-2035	46,050	4,092	50,142
Total	$ 422,715	$ 314,621	$ 737,336

The Airport's second lien variable rate bonds may bear interest from time to time at a flexible rate, a daily rate, a weekly rate, an adjustable long rate or the fixed rate as determined from time to time by the remarketing agent, in consultation with the City. At December 31, 2005 the Series 1998 bonds were in a daily interest mode and the Series 2002 bonds were in a weekly rate interest mode. An irrevocable letter of credit ($172.6 million) provides for the timely payment of principal and interest on the

Series 1998 bonds until March 3, 2008 ($86.3 million) and September 15, 2008 ($86.3 million). An irrevocable letter of credit ($22.3 million) provides for the timely payment of principal and interest on the Series 2002 bonds until February 13, 2007. At December 31, 2005, there were no outstanding letter of credit advances.

Pay-Fixed, Receive-Variable Interest Rate Swaps—In order to protect against the potential of rising interest rates, the Airport entered into two separate pay-fixed, receive-variable interest rate swaps at a cost less than what the Airport would have paid to issue fixed-rate debt ($ in thousands).

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termi-nation Date	Counter-party Credit Rating
Series 2004 C Bonds	$ 91,290	12/14/2004	4.174%	BMA	$ (709)	1/1/2035	Aa3/A+
Series 2004 D Bonds	60,860	12/14/2004	4.174%	BMA	(531)	1/1/2035	Aa2/A+
Total	$ 152,150				$ (1,240)		

Terms, Fair Values and Credit Risk—The terms, including the fair value and credit ratings of the outstanding swaps as of December 31, 2005, are as follows. The notional amounts of the swaps match the principal amounts of the associated debt. The City's swap agreements contained scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category.

Fair Value—As per industry convention, the fair value of the Airport's outstanding swaps were estimated using the zero-coupon method. This method calculates the future net settlement payment required by the swap, assuming that the forward rates implied the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap. Because interest rates declined subsequent to the date of execution the Airport's swaps had negative values.

Credit Risk—The Airport is exposed to credit risk (counterparty risk) through the counterparties with which it enters into agreements. If minimum credit rating requirements are not maintained, the counterparty is required to post collateral to a third party. This protects the Airport by mitigating the credit risk, and therefore the ability to pay a termination payment, inherent in a swap. Collateral on all swaps is to be in the form of cash or Eligible Collateral held by a third-party custodian. Upon credit events, the swaps also allow transfers, credit support, and termination if the counterparty is unable to meet the said credit requirements.

Basis Risk—Basis risk refers to the mismatch between the variable rate payments received on a swap contract and the interest payment actually owed on the bonds. The two significant components driving this risk are credit and BMA ratios. Credit may create basis risk because the Airport's bonds may trade differently then the swap index as a result of a credit change in the Airport. BMA ratios (or spreads) may create basis risk if BMA swaps of the Airport's bonds trade higher then the BMA received on the swap. This can occur due to many factors including, without limitations, changes in marginal tax rates, tax-exempt status of bonds, and supply and demand for variable rate bonds. The Airport is exposed to basis risk on the swaps if the rate paid on the bonds is higher than the rate received. The Airport is liable for the difference. The difference would need to be available on the debt service payment date and would add additional underlying cost to the transaction.

***Tax Risk*—**The swap exposes the Airport to tax risk or a permanent mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds due to tax law changes such that the Federal or State tax exception of municipal debt is eliminated or its value reduced. There have been no tax law changes since the execution of this swap agreement.

***Termination Risk*—**The risk that the swap could be terminated as a result of certain events including a ratings downgrade for the issuer or swap counterparty, covenant violation, bankruptcy, payment default or other defined events of default. Termination of a swap may result in a payment made by the issuer or to the issuer depending upon the market at the time of termination.

***Swap Payments and Associated Debt*—**Bonds Maturing and interest payable January 1, 2006 have been excluded because funds for their payment have been provided for. As of December 31, 2005, debt service requirements for the Airport's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows ($ in thousands):

Year Ending	Variable-Rate Bonds		Interest Rate	
December 31	Principal	Interest	Swaps–Net	Total
2006	$	$ 5,206	$ 1,145	$ 6,351
2007		5,206	1,145	6,351
2008		5,206	1,145	6,351
2009		5,206	1,145	6,351
2010		5,206	1,144	6,350
2011-2015	15,675	24,989	5,494	46,158
2016-2020	23,850	21,388	4,702	49,940
2021-2025	29,625	16,829	3,700	50,154
2026-2030	36,950	11,152	2,452	50,554
2031-2035	46,050	4,078	896	51,024
Total	$ 152,150	$ 104,466	$ 22,968	$ 279,584

***Defeased Bonds*—**Defeased bonds have been removed from the balance sheet because the related assets have been placed in irrevocable trusts that, together with interest earned thereon, will provide amounts sufficient for payment of all principal and interest. The Airport defeased a portion of the Chicago Midway Airport Revenue Bonds, Series 1996A in the amount of $64.0 million. At December 31, 2005, there was $64.0 million, outstanding in escrow.

***No-commitment Debt*—**Bonds payable on no-commitment debt are not included in the accompanying financial statements because the City has no obligation to provide for their repayment, which is the responsibility of the borrowing entities.

Option on Interest Rate Swap Agreement—Effective October 27, 1999, the Airport entered into an Option on Interest Rate Swap Agreement (the "Option") in connection with $397.7 million (the "Notional Amount") of Chicago Midway Airport Series Revenue Bonds 1998 A, 1998 B and 1998 C. Pursuant to the Option, the Airport received a premium of $23.0 million that was recorded as a deferred gain. As a synthetic refunding of the bonds, this premium represents the risk-adjusted, present value savings of a refunding, without issuing refunding bonds. The deferred gain is amortized over the term of the agreement (30 years). The buyer may exercise the Option if the daily weighted average of the Municipal Swap Index for the 180 days on the day prior to the exercise date is greater than 7.5 percent.

If the Option is exercised, the Airport will owe interest calculated on a floating rate equal to the Municipal Swap Index plus 25 basis points (the Spread) to the buyer of the swap. In return, the buyer will owe the Airport interest calculated on a fixed rate of 5.1 percent. The Notional Amount is not exchanged; it is only the basis on which interest payments are calculated. The Airport's floating rate is capped at 15 percent. The Airport continues to pay interest to the bondholders at the fixed rate stated in the bonds. However, during the term of the swap agreement, the Airport will effectively pay a variable rate on the bonds. The Option increases the Airport's exposure to variable interest rates. The debt service requirements to maturity for these bonds (presented in this note) are based on the fixed rate stated in the Bonds. The Airport will be exposed to paying fixed rates if the buyer to the swap defaults or if the swap is terminated. The Airport or the counter-party may terminate the Option if the other party fails to perform under the terms of the agreement. A termination of the swap agreement may result in the Airport making or receiving a termination payment. As of December 31, 2005, the Option had a negative fair market value of $16.2 million. The Option was not exercised during 2005.

5. CHANGES IN CAPITAL ASSETS

During the years ended December 31, 2005 and 2004, capital assets changed as follows ($ in thousands):

	Balance January 1, 2005	Additions	Disposals and Transfers	Balance December 31, 2005
Capital assets not depreciated:				
Land	$ 100,840	$ 63	$	$ 100,903
Construction in progress	87,678	64,256	(37,028)	114,906
Total capital assets not depreciated	188,518	64,319	(37,028)	215,809
Capital assets depreciated:				
Buildings and other facilities	1,007,355	37,028		1,044,383
Less accumulated depreciation for:				
Buildings and other facilities	(113,599)	(31,701)		(145,300)
Total capital assets depreciated–net	893,756	5,327		899,083
Total property and facilities–net	$ 1,082,274	$ 69,646	$ (37,028)	$ 1,114,892

	Balance January 1, 2004	Additions	Disposals and Transfers	Balance December 31, 2004
Capital assets not depreciated:				
Land	$ 100,257	$ 583	$	$ 100,840
Construction in progress	413,358	101,711	(427,391)	87,678
Total capital assets not depreciated	513,615	102,294	(427,391)	188,518
Capital assets depreciated:				
Buildings and other facilities	579,965	427,390		1,007,355
Less accumulated depreciation for:				
Buildings and other facilities	(95,905)	(17,694)		(113,599)
Total capital assets depreciated–net	484,060	409,696		893,756
Total property and facilities–net	$ 997,675	$ 511,990	$ (427,391)	$ 1,082,274

6. LEASING ARRANGEMENTS WITH TENANTS

Most of the Airport's land, buildings and terminal space are leased under operating lease agreements to airlines and other tenants. The following is a schedule of the minimum future rental income on noncancelable operating leases as of December 31, 2005 ($ in thousands):

Year Ending December 31	Amount
2006	$ 19,753
2007	11,412
2008	11,290
2009	10,759
2010	10,616
2011-2014	19,181
Total	$ 83,011

Contingent rentals that may be received under certain leases, based on the tenants' revenues, are not included in minimum future rental income.

Rental income, consisting of all rental and concession revenues except aircraft parking fees and turns and automobile parking, amounted to $55.6 million and $47.2 million in 2005 and 2004, respectively. Contingent rentals included in the totals were approximately $23.1 million and $21.5 million for 2005 and 2004, respectively.

7. PENSION PLANS

Eligible Airport employees participate in one of two of the City's single-employer defined benefit pension plans. These plans are the Municipal Employees' and the Laborers' and Retirement Board Employees' Annuity and Benefit Funds. These plans are administered by individual retirement boards represented by elected and appointed officials. Each plan issues publicly available financial statements, for each of the pension plans, which may be obtained at the respective fund's office.

The funds provide retirement and death and disability benefits as established by State law. Benefits generally vest after 20 years of credited service. Employees who retire at or after age 55 with at least 10 years of credited service qualify to receive a money purchase annuity and those with more than 20 years of credited service qualify to receive a minimum formula annuity. The annuity is computed by multiplying the final average salary by a minimum of 2.4 percent per year of credited service. The final average salary is the employee's highest average annual salary for any four consecutive years within the last 10 years of credited service.

Participating employees contribute 8.5 percent of their salary to these funds as required by State law. By law, the City's contributions are based on the amounts contributed by the employees. Financing of the City's contribution is through a separate property tax levy and the personal property replacement tax. The Midway Fund reimburses the City's General Fund for the estimated pension cost applicable to the covered payroll of Midway Fund employees. These reimbursements recorded as expenses of the Midway Fund were $2.5 million in 2005 and $2.3 million in 2004. The annual pension costs are determined using the entry age normal actuarial cost method and the level dollar amortization method.

The funding policy mandated by State law requires City contributions at statutorily, not actuarially, determined rates. The rates are expressed as multiples of employee contributions. These contributions equal employee contributions made in the calendar year two years prior to the current year, multiplied by the statutory rates. The statutory rates in effect for the City's contributions made during the years ended December 31, 2005, 2004 and 2003 were 1.25 for the Municipal Employees' and 1.00 for the Laborers' and Retirement Board Employees' Annuity and Benefit Funds, respectively. The City has made the required contributions under State law.

The following table as of December 31, 2005 assists readers in assessing each fund's progress in accumulating sufficient assets to pay benefits when due. The three-year historical information for each annuity and benefit fund will be accumulated over the next year ($ in thousands):

	Annual Pension Cost	Annual Pension Cost Contributed	Required Contribution	Required Contributions Contributed	Net Pension Assets
Municipal Employees':					
2003	$157,771	89.9 %	$ 158,615	89.5 %	$ 342,888
2004	197,393	78.0	198,199	77.7	299,415
2005	284,587	54.5	285,291	54.4	169,895
Laborers':					
2003	$ (6,642)	N/A	N/A	N/A	$ 277,880
2004	7,860	0.6	8,513	2.4	270,223
2005	12,138	0.3	12,774	0.3	258,125

The pension benefits information pertaining expressly to Airport employees is not available. Accordingly, no amounts have been recorded in the accompanying financial statements for the net pension assets of these plans.

In addition to providing pension benefits, under State law, the City provides certain health benefits to employees who retire from the City based upon their participation in the City's pension plans. Substantially all employees who qualify as Municipal Employees' or Laborers' pension plan participants older than age 55 with at least 20 years of service may become eligible for postemployment benefits if they eventually become annuitants. Health benefits include basic benefits for annuitants and supplemental benefits for Medicare-eligible annuitants. Currently, the City does not segregate benefit payments to annuitants by fund. The cost of health benefits is recognized as claims are reported on and funded on a pay-as-you-go basis. The total cost to the City for providing health benefits to approximately 24,507 and 23,902 annuitants and their dependents was approximately $78.3 million and $70.9 million in 2005 and 2004, respectively.

All annuitants who retire in 2005 received a 55 percent subsidy from the City for the gross cost of retiree health care under a court approval settlement agreement. The pension funds contributed $55 for each Medicare eligible annuitant and $85 for each non-Medicare eligible annuitant to their gross cost. The annuitants contributed a total of approximately $58.1 million in 2005 to the gross cost of their retiree health care pursuant to premium amounts set forth in the above-referenced settlement agreement.

8. RELATED-PARTY TRANSACTIONS

Included in operating expenses are reimbursements to the General Fund of the City for services provided by other City departments, employee fringe benefits and self-insured risks. Such reimbursements were $10.1 million and $10.7 million in 2005 and 2004, respectively.

9. COMMITMENTS AND CONTINGENCIES

The Airport has certain contingent liabilities resulting from litigation, claims and commitments incident to the ordinary course of business. Management expects that the final resolution of these contingencies will not have a material adverse effect on the financial position or results of operations of the Airport.

The Airport provides employee health benefits under a self-insurance program, administered by the City. Such claims outstanding, including claims incurred but not reported, are estimated and recorded as liabilities in the financial statements.

Uninsured claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Changes in the claims liability amount for the years ended December 31, 2005 and 2004 are as follows ($ in thousands):

	2005	2004
Beginning balance—January 1	$ 311	$ 330
Total claims incurred (expenditures)	2,413	2,915
Claims paid	(2,407)	(2,934)
Claims liability—December 31	$ 317	$ 311

The City purchases annuity contracts from commercial insurers to satisfy certain liabilities. The City renewed its property insurance for the City's Airports, effective January 1, 2002, at a limit of $937 million, which the City's insurance broker advised was the highest amount commercially available at the time. Claims have not exceeded the purchased insurance coverage in the past three years. Accordingly, no liability is reported for those claims. Property and casualty risks for the Airport are transferred to commercial insurers.

At December 31, 2005 and 2004, the Airport had commitments in the amount of approximately $32.4 million and $85.8 million, respectively, in connection with contracts entered into for construction projects.

10. SUBSEQUENT EVENTS

The City is evaluating the sale of a long-term lease to operate Midway International Airport. The City intends to pursue such a transaction in accordance with the provisions of 49 U.S.C – 47134 relating to a pilot program for the private ownership of airports (the "Airports Privatization Act"). It is not possible to predict whether or when any such transaction will occur.

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CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

ADDITIONAL INFORMATION
CHICAGO MIDWAY AIRPORT REVENUE BONDS
DEBT SERVICE COVERAGE CALCULATIONS
YEARS ENDED DECEMBER 31, 2005 AND 2004
($ IN THOUSANDS)

	2005	2004
REVENUES:		
Total revenues—as defined	$ 98,267	$ 87,996
Other available moneys (passenger facility charges & letter of intent)	50,591	48,193
Cash balance in Revenue Fund on first day of fiscal year (Note 2)	30,902	28,949
TOTAL REVENUES	$ 179,760	$ 165,138
COVERAGE REQUIREMENT:		
Required deposits from revenues:		
Debt Service Fund	$ 41,866	$ 46,934
Operation and Maintenance Reserve Account	676	1,248
Junior Lien Obligation Debt Service Fund	2,677	764
Repair and Maintenance Fund	1,054	1,000
Total fund deposit requirements	$ 46,273	$ 49,946
AGGREGATE FIRST LIEN DEBT SERVICE FOR THE BOND YEAR	$ 52,215	$ 57,168
Less amounts transferred from capitalized interest accounts	(6,099)	(8,537)
Net aggregate debt service	46,116	48,631
	1.25	1.25
Net debt service required	$ 57,646	$ 60,789
OPERATION AND MAINTENANCE EXPENSES	$ 88,227	$ 81,531
COVERAGE REQUIRED (greater of total fund deposit requirements or 125 percent of aggregate debt service)	57,646	60,789
TOTAL COVERAGE REQUIRED	$ 145,873	$ 142,320
TOTAL REVENUES	$ 179,760	$ 165,138
COVERAGE RATIO	1.23	1.16

See notes to Debt Service Coverage Calculations.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

ADDITIONAL INFORMATION
CHICAGO MIDWAY AIRPORT REVENUE BONDS
NOTES TO DEBT SERVICE COVERAGE CALCULATIONS
YEARS ENDED DECEMBER 31, 2005 AND 2004

1. RATE COVENANT

The Master Indenture of Trust (Master Indenture) securing the Chicago Midway Airport Revenue Bonds (Bonds) requires that revenues, together with other available moneys deposited with the trustee and any cash balance held in the Revenue Fund on the first day of the calendar year not then required to be deposited in any fund or account, will be at least sufficient (i) to provide for the payment of operation and maintenance expenses for the fiscal year, and (ii) to provide for the greater of (a) the amounts needed to make required deposits into the Debt Service Fund, the Operating and Maintenance Reserve Account, the Working Capital Account, the Debt Service Reserve Fund, the Junior Lien Obligation Debt Service Fund, the Repair and Replacement Fund and the Special Project Fund, and (b) an amount not less than 125 percent of the aggregate debt service for the bond year commencing during such fiscal year.

2. REVENUE FUND BALANCE

The Revenue Fund Balance includes all cash, cash equivalents and investments, which were available to the Revenue Fund to satisfy the coverage requirement under the terms of the Master Indenture.

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CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

ADDITIONAL INFORMATION
CHICAGO MIDWAY AIRPORT SECOND LIEN REVENUE BONDS
DEBT SERVICE COVERAGE CALCULATIONS
YEARS ENDED DECEMBER 31, 2005 AND 2004
($ IN THOUSANDS)

	2005	2004
REVENUES:		
Total revenues—as defined	$ 98,267	$ 87,996
Other available moneys (passenger facility charges & letter of intent)	50,591	48,193
Cash balance in Revenue Fund on first day of fiscal year (Note 2)	30,902	28,949
TOTAL REVENUES FOR CALCULATION OF COVERAGE	$ 179,760	$ 165,138
COVERAGE REQUIREMENT:		
Required deposits from revenues:		
First Lien Debt Service Fund	$ 41,866	$ 46,934
Operation and Maintenance Reserve Account	676	1,248
Junior Lien Obligation Debt Service Fund	2,677	764
Junior Lien Obligation Debt Service Fund	1,054	1,000
Total fund deposit requirements	$ 46,273	$ 49,946
125% OF AGGREGATE FIRST LIEN DEBT SERVICE FOR THE BOND YEAR:		
Aggregate First Lien Debt Service	$ 52,215	$ 57,168
Less amounts transferred from First Lien Capitalized Interest Accounts	(6,099)	(8,537)
Net aggregate First Lien Debt Service	46,116	48,631
	1.25	1.25
125% OF AGGREGATE FIRST LIEN DEBT SERVICE	$ 57,646	$ 60,789
GREATER OF FUND DEPOSIT REQUIREMENTS AND 125% OF AGGREGATE FIRST LIEN DEBT SERVICE	$ 57,646	$ 60,789
110% OF AGGREGATE FIRST AND SECOND LIEN DEBT SERVICE FOR THE BOND YEAR:		
Aggregate First Lien Debt Service	$ 52,215	$ 57,168
Aggregate Second Lien Debt Service	17,540	3,488
Less amounts transferred from First Lien Capitalized Interest Accounts	(6,099)	(8,537)
Less amounts transferred from Junior Lien Capitalized Interest Accounts	(11,066)	(2,724)
Net aggregate First and Second Lien Debt Service	52,590	49,395
	1.10	1.10
110% OF AGGREGATE FIRST AND SECOND LIEN DEBT SERVICE	$ 57,849	$ 54,335
GREATER OF FUND DEPOSIT REQUIREMENTS AND 110% OF AGGREGATE FIRST AND SECOND LIEN DEBT SERVICE	$ 57,849	$ 54,335
GREATER OF 125% OF FIRST LIEN DEBT OR 110% OF AGGREGATE DEBT SERVICE	$ 57,849	$ 60,789
COVERAGE CALCULATION:		
Operation and maintenance expenses	$ 88,227	$ 81,531
110% of aggregate First and Second Lien Debt Service	57,849	60,789
TOTAL COVERAGE REQUIRED	$ 146,076	$ 142,320
TOTAL REVENUES	$ 179,760	$ 165,138
REVENUES IN EXCESS OF COVERAGE REQUIREMENT	$ 33,684	$ 22,818
COVERAGE RATIO	1.23	1.16

See notes to Debt Service Coverage Calculations.

ADDITIONAL INFORMATION
CHICAGO MIDWAY AIRPORT SECOND LIEN REVENUE BONDS
NOTES TO DEBT SERVICE COVERAGE CALCULATIONS
YEARS ENDED DECEMBER 31, 2005 AND 2004

1. RATE COVENANT

The Master Indenture of Trust (Master Indenture) securing the Chicago Midway Airport Second Lien Revenue Bonds (Bonds) requires that revenues, together with other available moneys deposited with the First Lien Trustee or the Second Lien Trustee and any cash balance held in the First Lien Revenue Fund or the Second Lien Revenue Fund on the first day of the fiscal year not then required to be deposited in any fund or account under the First Lien Indenture or the Second Lien Indenture, will be at least sufficient (a) to provide for the payment of operation and maintenance expenses for the fiscal year, and (b) to provide for: (i) the greater of the amounts needed to make the deposits required under the First Lien Indenture during such calendar year into the First Lien Debt Service Fund, the O&M Reserve Account, the Working Capital Account, the First Lien Debt Service Reserve Fund, the Junior Lien Obligation Debt Service Fund, the Repair and Replacement Fund and the Special Project Fund, or an amount not less than 125 percent of the Aggregate First Lien Debt Service for the Bond Year commencing during such fiscal year, reduced by any amount held in any capitalized interest account for disbursement during such Bond Year to pay interest on First Lien Bonds; or (ii) the greater of the amounts needed to make the deposits required under the First Lien Indenture during such fiscal year into the First Lien Debt Service Fund, the O&M Reserve Account, the Working Capital Account, the First Lien Debt Service Reserve Fund, the Junior Lien Obligation Debt Service Fund, the Repair and Replacement Fund and the Special Project Fund, or an amount not less than 110 percent of the sum of Aggregate First Lien Debt Service and Aggregate Second Lien Debt Service for the Bond Year commencing during such fiscal year, reduced by (a) any amount held in any capitalized interest account for disbursement during such Bond Year to pay interest on any First Lien Bonds, and (b) any amount held in any capitalized interest account established pursuant to a Supplemental Indenture for disbursement during such Bond Year to pay interest on Second Lien Obligations.

2. REVENUE FUND BALANCE

The Revenue Fund Balance includes all cash, cash equivalents and investments, which were available to the Revenue Fund to satisfy the coverage requirement under the terms of the Master Indenture.

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CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

HISTORICAL OPERATING RESULTS
TEN YEARS ENDED DECEMBER 31, 2005 (UNAUDITED)
($ IN THOUSANDS)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
OPERATING REVENUES:										
Landing fees	$ 13,183	$ 16,096	$ 11,749	$ 12,657	$ 20,432	$ 18,773	$ 20,934	$ 14,524	$ 15,585	$ 15,668
Rental revenues:										
Terminal area use charges	5,556	4,681	2,580	3,479	6,322	14,748	19,073	12,089	13,714	17,179
Other rentals and fueling system fees	2,931	2,987	2,930	2,631	2,979	6,693	9,837	8,688	11,055	12,942
Subtotal rental revenues	8,487	7,668	5,510	6,110	9,301	21,441	28,910	20,777	24,769	30,121
Concessions:										
Auto parking	12,696	14,030	17,799	20,719	25,613	23,595	23,443	25,348	25,939	25,675
Auto rentals	3,702	3,967	4,566	7,376	7,436	8,049	8,039	7,808	8,001	8,417
Restaurant	2,254	2,563	1,899	2,053	2,559	3,595	5,249	6,057	6,715	6,879
News and gifts	394	507	802	864	1,195	1,347	2,287	2,968	3,272	3,852
Other	810	1,015	914	1,056	1,044	668	996	1,490	1,328	1,616
Subtotal concessions	19,856	22,082	25,980	32,068	37,847	37,254	40,014	43,671	45,255	46,439
Reimbursements	21	43	43	43						
Total operating revenues (1)	41,547	45,889	43,282	50,878	67,580	77,468	89,858	78,972	85,608	92,228
OPERATING AND MAINTENANCE EXPENSES:										
Salaries and wages (2)	23,768	23,726	25,461	28,498	31,094	33,121	34,036	36,582	32,316	32,259
Repairs and maintenance	5,194	4,621	5,312	8,108	9,695	18,215	24,562	26,770	28,065	31,690
Energy	1,096	1,188	876	1,112	2,613	3,332	4,143	3,621	4,869	6,040
Materials and supplies	942	1,171	928	1,427	1,275	588	811	616	663	1,170
Professional and engineering services	1,993	4,789	4,742	6,652	8,192	10,085	9,536	9,214	10,678	11,274
Other operating expenses	1,456	3,775	4,613	4,164	3,033	2,379	4,467	6,390	4,940	5,794
Total operating and maintenance expenses before depreciation and amortization (3)	34,449	39,270	41,932	49,961	55,902	67,720	77,555	83,193	81,531	88,227
NET OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (4)	$ 7,098	$ 6,619	$ 1,350	$ 917	$ 11,678	$ 9,748	$ 12,303	$ (4,221)	$ 4,077	$ 4,001
DEBT SERVICE COVERAGE RATIO (5)	1.62	1.42	1.26	1.29	1.30	1.27	1.19	1.05	1.16	1.23

(1) Average annual compound growth rate for 1996-2005 for Total operating revenues is 9.3 percent.
(2) Salaries and wages includes charges for pension, health care and other employee benefits.
(3) Average annual compound growth rate for 1996-2005 for Total operating and maintenance expenses before depreciation and amortization is 11.0 percent.
(4) Amount for 2005 may be reconciled to operating loss of $31,676 reported in the 2005 Statement of Revenues, Expenses and Changes in Net Assets by deducting depreciation and amortization of $35,677. Amount for prior years may be reconciled through similar calculations.
(5) Represents debt service coverage ratio on first and second lien bonds.

Source: Chicago Midway Airport Audited Financial Statements and City of Chicago Comptroller's Office.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

DEBT SERVICE SCHEDULE (UNAUDITED)
($ IN THOUSANDS)

The following table sets forth aggregate annual debt service of principal and interest for outstanding Midway Airport Revenue Bonds:

Year Ending December 31	Debt Service Series 1996 First Lien Bonds	Debt Service Series 1998 First Lien Bonds	Debt Service Series 2001 First Lien Bonds	(First Lien) Total Debt Service	Debt Service Series 1998 Second Lien Bonds	Debt Service Series 2002 Second Lien Bonds	Debt Service Series 2004 Second Lien Bonds	(Second Lien) Total Debt Service (1)	Total Debt Service
2006	13,951	22,750	15,309	52,010	6,412	979	9,021	16,412	68,422
2007	13,941	22,730	21,047	57,718	6,413	979	9,021	16,413	74,131
2008	13,947	22,731	21,177	57,855	6,412	979	9,021	16,412	74,267
2009	13,935	22,729	21,163	57,827	6,413	979	9,021	16,413	74,240
2010	10,529	22,722	21,158	54,409	6,412	979	12,421	19,812	74,221
2011	10,522	22,721	21,147	54,390	6,413	979	13,258	20,650	75,040
2012	10,519	22,719	21,124	54,362	6,412	979	16,842	24,233	78,595
2013	10,529	22,702	21,112	54,343	6,413	979	16,890	24,282	78,625
2014	10,522	22,705	21,097	54,324	6,412	979	16,900	24,291	78,615
2015	10,509	22,691	21,083	54,283	6,413	979	16,967	24,359	78,642
2016	10,504	22,701	21,072	54,277	6,412	979	16,892	24,283	78,560
2017	10,502	22,684	21,058	54,244	6,413	979	17,032	24,424	78,668
2018	10,494	22,674	21,040	54,208	6,412	979	17,067	24,458	78,666
2019	10,488	22,671	21,021	54,180	6,413	979	17,111	24,503	78,683
2020	10,480	22,664	21,029	54,173	6,412	979	17,148	24,539	78,712
2021	10,473	22,658	21,016	54,147	6,413	22,490	17,087	45,990	100,137
2022	10,467	22,646	21,005	54,118	6,412		17,217	23,629	77,747
2023	17,334	22,643	20,981	60,958	6,413		10,884	17,297	78,255
2024	17,313	22,632	20,968	60,913	6,412		10,950	17,362	78,275
2025	17,294	24,151	20,944	62,389	6,413		9,436	15,849	78,238
2026	17,274	24,137	20,926	62,337	6,412		9,508	15,920	78,257
2027	17,252	24,126	20,915	62,293	6,413		9,522	15,935	78,228
2028	17,230	24,113	20,888	62,231	6,412		9,624	16,036	78,267
2029	17,205	24,107	20,867	62,179	174,206		9,691	183,897	246,076
2030		51,656	20,840	72,496			9,795	9,795	82,291
2031		51,607	20,810	72,417			9,861	9,861	82,278
2032		51,550		51,550			9,941	9,941	61,491
2033		51,495		51,495			10,007	10,007	61,502
2034		51,439		51,439			10,110	10,110	61,549
2035		51,374		51,374			10,223	10,223	61,597
2036									
2037									
	$ 313,214	$ 860,928	$ 540,797	$ 1,714,939	$ 321,693	$ 37,175	$ 378,468	$ 737,336	$ 2,452,275

(1) Assumes an interest rate effective at December 31, 2005 on $193,000 of Second Lien Bonds that are variable-rate demand obligations.

Note: The annual debt service tables in the Official Statements for the above debt were presented with a year ended January 1. The information above is presented with a year ended December 31. The change has been made to facilitate reconciliation to revenue bonds payable at December 31, 2004.

Source: City of Chicago Comptroller's Office.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

MIDWAY AIRPORT REVENUE BONDS
SERIES 1996 ESTIMATED BOND-FUNDED COSTS
DECEMBER 31, 2005 (UNAUDITED)
($ IN THOUSANDS)

Project Name	Estimated Bond-Funded Costs (1)
Airfield	$ 9,500
Terminal	40,681
Terminal ramp	2,258
Parking and roadways	94,670
Noise	29,578
Land acquisition	23,672
Fuel storage facilities	17,392
Total	$ 217,751

(1) Includes estimated costs to be funded from investment earnings.

Source: City of Chicago Department of Aviation.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

CAPITAL IMPROVEMENT PROGRAM 2006 - 2013
ESTIMATED SOURCES AND USES OF FUNDS
DECEMBER 31, 2005 (UNAUDITED)
($ IN THOUSANDS)

ESTIMATED SOURCES:	
AIP—Entitlements	$ 44,700
Other federal funds	97,300
Airport development fund	2,300
Other airport funds	81,300
PFC revenues (pay-as-you-go)	600
Series 1994 Bonds	100
Series 1996 Bonds	900
Series 1998 Bonds	15,200
Series 2001 Bonds	63,200
Series 2004 Bonds	83,400
Future Bonds	321,400
TOTAL ESTIMATED SOURCES	$ 710,400
ESTIMATED USES:	
Terminal area projects	$ 124,500
Land acquisition	21,800
Airfield projects	200,100
Parking/roadway projects	142,400
Noise projects	188,000
Implementation	33,600
TOTAL ESTIMATED USES	$ 710,400

(1) Terminal ramp is a reclassification of funds which were previously included in Airfield and Terminal projects.

Source: City of Chicago Department of Aviation.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

TERMINAL DEVELOPMENT PROGRAM
ESTIMATED SOURCES AND USES OF FUNDS
DECEMBER 31, 2005 (UNAUDITED)
($ IN THOUSANDS)

ESTIMATED SOURCES:	
AIP—Entitlements	$ 19,600
AIP—Discretionary	2,700
Airport development fund	6,200
Federal Highway Grant	6,500
Series 1996 Bonds	156,000
Series 1998 Bonds	359,000
Series 2001 Bonds	68,500
Series 2004 Bonds	40,800
TOTAL ESTIMATED SOURCES (1)	$ 659,300
ESTIMATED USES:	
Terminal projects	$ 340,100
Terminal ramp projects (2)	24,900
Airfield projects	28,600
Parking/roadway projects	149,600
Development of FIS	22,500
Implementation costs	93,600
TOTAL ESTIMATED USES	$ 659,300

(1) The estimated sources and uses of the TDP include approximately $615.3 million of funds expended through December 31, 2005.
(2) Terminal ramp is a reclassification of projects which were previously included in Airfield and Terminal projects.

Source: City of Chicago Department of Aviation.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

HISTORICAL ENPLANED PASSENGERS
TEN YEARS ENDED DECEMBER 31, 2005 (UNAUDITED)

Year	Domestic Air Carrier	Domestic Commuter	Total Domestic	International Enplanements	Total Enplanements	Percent Change
1996	4,573,933	57,353	4,631,286		4,631,286	(1.0)
1997	4,521,367	82,989	4,604,356		4,604,356	(0.6)
1998	5,190,367	120,542	5,310,909		5,310,909	15.3
1999	6,223,525	154,161	6,377,686		6,377,686	20.1
2000	7,042,744	282,653	7,325,397		7,325,397	14.9
2001	7,062,749	398,429	7,461,178		7,461,178	1.9
2002	7,531,464	561,917	8,093,381	115,131	8,208,512	10.0
2003	8,228,230	658,478	8,886,708	113,665	9,000,373	9.7
2004	8,815,951	656,468	9,472,419	153,481	9,625,900	7.0
2005	8,501,430	99,991	8,601,421	104,382	8,705,803	(9.6)

Average Annual Compound Growth Rates

1996-2005	7.1 %	6.4 %	7.1 %	(3.2)%	7.3 %

Source: City of Chicago Department of Aviation.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

ENPLANED COMMERCIAL PASSENGERS BY AIRLINE
TEN YEARS ENDED DECEMBER 31, 2005 (UNAUDITED)

	1996 Enplanements	% of Total	1997 Enplanements	% of Total	1998 Enplanements	% of Total	1999 Enplanements	% of Total	2000 Enplanements	% of Total	2001 Enplanements	% of Total	2002 Enplanements	% of Total	2003 Enplanements	% of Total	2004 Enplanements	% of Total	2005 Enplanements	% of Total
Southwest Airlines	$2,425,696	52.4 %	$2,463,180	53.5 %	$2,625,879	49.4 %	$2,933,217	46.0 %	$3,314,836	45.3 %	$3,261,567	43.7 %	$3,348,624	40.9 %	$3,651,618	40.5 %	$3,967,477	41.2 %	$5,542,890	63.6 %
American Trans Air	703,445	15.2	743,143	16.1	1,150,225	21.7	1,517,290	23.8	2,008,826	27.4	2,476,073	33.2	3,032,663	37.0	3,473,581	38.5	3,668,159	38.1	1,714,873	19.6
AirTran (1)	58,964	1.3	97,344	2.1	214,575	4.0	222,013	3.5	253,282	3.5	351,242	4.7	296,909	3.6	248,891	2.8	229,040	2.4	338,057	3.9
Northwest Airlines	390,375	8.4	389,140	8.5	339,229	6.4	376,177	5.9	404,851	5.5	370,176	5.0	329,709	4.0	357,425	4.0	349,161	3.6	290,080	3.3
Frontier															101,035	1.1	134,593	1.4	154,120	1.8
American					69,984	1.3	116,344	1.8	110,043	1.5	92,500	1.2	116,071	1.4	153,043	1.7	143,211	1.5	113,818	1.3
United																			106,951	1.3
Delta (2)					22,110	0.4	98,053	1.5	86,096	1.2	48,075	0.6	175,323	2.1	163,104	1.8	184,166	1.9	86,621	1.0
Continental Airlines (3)	174,523	3.8	162,088	3.5	180,247	3.4	204,753	3.2	52,434	0.7	123,883	1.7	148,946	1.8	140,100	1.6	162,823	1.7	63,433	0.7
Continental Express																			53,458	0.6
Chicago Express															564,951	6.3	570,580	5.9	41,410	0.5
American Eagle/Simmons																	22,267	0.2	7,599	0.1
Comair															23,818	0.3	17,655	0.2	5,123	0.1
U.S. Airways (4)							143,848	2.3	173,344	2.4	62,780	0.8	17,644	0.2	25,293	0.3	14,116	0.1		
Mexicana													33,045	0.4	5,786	0.1		0.0		0.0
All other airlines	246,596	5.3	323,401	7.0	237,181	4.5	287,054	4.5	460,813	6.3	479,738	6.4	594,181	7.2	91,728	1.0	162,652	1.7	187,370	2.2
Total	3,999,599	100.0 %	4,178,296	100.0 %	4,839,430	100.0 %	5,898,749	100.0 %	6,864,525	100.0 %	7,266,034	100.0 %	8,093,115	100.0 %	9,000,373	100.0 %	9,625,900	100.0 %	8,705,803	100.0 %

(1) AirTran Airlines, formerly known as Valujet, temporarily suspended operations system-wide from June 18, 1996 to September 30, 1996.
AirTran resumed operations at the Airport on October 24, 1996.
(2) Delta includes commuter affiliate Comair. Delta commenced scheduled service to Atlanta from Midway in September 2001.
(3) Continental includes commuter affiliate Continental Express.
(4) U.S. Airways ceased operations at Midway on September 23, 2001.
U.S. Airways resumed operations at Midway on July 1, 2002.

Note: Percentage totals may not add due to individual rounding.

Source: City of Chicago Department of Aviation.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

HISTORICAL ENPLANED PASSENGERS
CHICAGO REGION AIRPORTS
TEN YEARS ENDED DECEMBER 31, 2005 (UNAUDITED)

	Chicago Midway International Airport		Chicago O'Hare International Airport		
Year	Total Enplanements	Percent of Total Chicago	Total Enplanements	Percent of Total Chicago	Total Enplanements
1996	4,631,286	12.0	34,067,885	88.0	38,699,171
1997	4,604,356	11.7	34,778,738	88.3	39,383,094
1998	5,310,909	12.9	35,789,961	87.1	41,100,870
1999	6,377,686	15.1	35,981,457	84.9	42,359,143
2000	7,325,397	17.0	35,700,949	83.0	43,026,346
2001	7,461,178	18.3	33,329,966	81.7	40,791,144
2002	8,208,512	19.9	32,938,702	80.1	41,147,214
2003	9,000,373	20.7	34,454,921	79.3	43,455,294
2004	9,625,900	20.4	37,464,632	79.6	47,090,532
2005	8,705,803	18.7	37,970,886	81.3	46,676,689
Average Annual Compound Growth Rates					
1996-2005	7.3 %		1.2 %		2.1 %

Source: City of Chicago Department of Aviation.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

HISTORICAL TOTAL ORIGIN AND DESTINATION (O&D) ENPLANEMENTS
CHICAGO REGION AIRPORTS
TEN YEARS ENDED DECEMBER 31, 2005 (UNAUDITED)

	Chicago Midway International Airport		Chicago O'Hare International Airport		
Year	Total O&D Enplanements	Percent of Total Chicago	Total O&D Enplanements	Percent of Total Chicago	Total O&D Enplanements
1996	4,139,896	20.8	15,757,488	79.2	19,897,384
1997	4,017,275	19.7	16,356,145	80.3	20,373,420
1998	4,493,259	21.1	16,764,341	78.9	21,257,600
1999	5,353,193	24.1	16,849,260	75.9	22,202,453
2000	5,865,172	25.4	17,215,087	74.6	23,080,259
2001	5,503,697	25.9	15,750,781	74.1	21,254,478
2002	5,700,605	27.2	15,279,859	72.8	20,980,464
2003	6,243,039	28.9	15,331,493	71.1	21,574,532
2004	6,634,138	28.3	16,799,401	71.7	23,433,539
2005	6,431,517	26.8	17,548,038	73.2	23,979,555

Average Annual Compound Growth Rates

1996-2005	5.0 %		1.2 %		2.1 %

(1) Originating enplanements, resulting connecting enplanements and percentages have been recalculated for the entire period to account for point-to-point foreign flag activity not included in the U.S. DOT passenger survey.

Source: City of Chicago Department of Aviation.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

AIRCRAFT OPERATIONS
TEN YEARS ENDED DECEMBER 31, 2005 (UNAUDITED)

	Aircraft Operations						
Year	Domestic Air Carrier	International Air Carrier	Total Air Carrier	Domestic Commuter	General Aviation	Military	Total
1996	124,913		124,913	11,126	117,286	2,388	255,713
1997	116,246		116,246	17,477	130,551	1,298	265,572
1998	128,906		128,906	19,435	128,430	1,873	278,644
1999	143,658		143,658	22,740	129,691	928	297,017
2000	163,625		163,625	27,320	106,890	280	298,115
2001	154,362		154,362	32,938	91,232	202	278,734
2002	161,401	1,965	163,366	48,102	91,880	956	304,304
2003	169,282	1,630	170,912	57,824	99,289		328,025
2004	181,750	2,472	184,222	57,905	97,381		339,508
2005	184,863	1,669	186,532	7,444	95,603		289,579
	Average Annual Compound Growth Rates						
1996-2005	4.5 %	(5.3)%	4.6 %	(4.4)%	(2.3)%	(100.0)%	1.4 %

Source: City of Chicago Department of Aviation.