

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

FINANCIAL STATEMENTS

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

FINANCIAL STATEMENTS

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Report of Independent Public Accountants

Board of Trustees
The Shedd Aquarium Society
Chicago, Illinois

We have audited the accompanying statements of financial position of the **Shedd Aquarium Society** as of December 31, 2009 and 2008, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Shedd Aquarium Society** as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blackman Kallick, LLP

April 8, 2010

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

STATEMENTS OF FINANCIAL POSITION

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 6,514,044	\$ 8,833,074
Accounts receivable	1,956,336	879,238
Pledges receivable	14,139,822	14,556,881
Prepaid expenses and other assets	2,015,475	585,762
Bond issuance costs, net of accumulated amortization (2009-\$394,164; 2008-\$320,730)	545,862	619,296
Building, improvements and equipment:		
Building	104,223,519	80,081,824
Building improvements and renovation	117,705,798	85,265,106
Machinery and equipment	54,584,545	34,902,884
Construction in progress	28,448	36,947,116
	<u>276,542,310</u>	<u>237,196,930</u>
Less accumulated depreciation	(105,613,194)	(94,801,489)
	<u>170,929,116</u>	<u>142,395,441</u>
Investments	138,288,887	128,744,375
Beneficial interest in a perpetual trust	1,052,109	798,675
	<u>\$ 335,441,651</u>	<u>\$ 297,412,742</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 4,627,794	\$ 13,302,890
Deferred revenue	893,912	492,871
Bonds and loan payable	56,425,332	32,599,766
Accrued post-retirement benefit expense	4,355,275	3,662,715
	<u>66,302,313</u>	<u>50,058,242</u>
Net assets:		
Unrestricted	214,250,760	220,932,319
Temporarily restricted	43,416,393	15,106,343
Permanently restricted	11,472,185	11,315,838
	<u>269,139,338</u>	<u>247,354,500</u>
	<u>\$ 335,441,651</u>	<u>\$ 297,412,742</u>

The accompanying notes are an integral part of these financial statements.

SHEDD AQUARIUM SOCIETY

For the Years Ended December 31, 2009 and 2008

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	2009				2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES								
Admissions	\$ 24,697,202			\$ 24,697,202	\$ 23,822,881			\$ 23,822,881
Tax appropriations	4,452,963			4,452,963	5,023,355			5,023,355
Ancillary services	3,477,096			3,477,096	3,058,835			3,058,835
Memberships and contributions	11,045,779	\$ 3,093,561	\$ 2,913	14,142,253	10,616,487	\$ 14,979,311	\$ 205,743	25,801,541
Educational programs and trips	684,979			684,979	874,686			874,686
Fundraising events	739,597			739,597	1,170,771			1,170,771
Net assets released from restrictions:								
Satisfaction of time restrictions	3,646,753	(3,646,753)		-	102,750	(102,750)		-
Miscellaneous	61,637			61,637	147,542			147,542
Total operating revenues	48,806,006	(553,192)	2,913	48,255,727	44,817,307	14,876,561	205,743	59,899,611
OPERATING EXPENSES								
Exhibits	13,299,575			13,299,575	10,960,950			10,960,950
Animal husbandry	9,764,259			9,764,259	8,280,775			8,280,775
Education, outreach and interpretation	7,464,194			7,464,194	6,214,230			6,214,230
Guest services	3,642,109			3,642,109	3,645,207			3,645,207
Ancillary services	1,799,127			1,799,127	1,555,019			1,555,019
Development and membership	2,439,958			2,439,958	2,702,816			2,702,816
Fundraising events	549,725			549,725	761,151			761,151
Management and general	10,158,334			10,158,334	9,230,410			9,230,410
Total operating expenses	49,117,281	-	-	49,117,281	43,350,558	-	-	43,350,558
Net (loss) revenue from operations	(311,275)	(553,192)	2,913	(861,554)	1,466,749	14,876,561	205,743	16,549,053
NON-OPERATING ITEMS								
Interest and dividends	3,381,865			3,381,865	4,968,604			4,968,604
Net realized (losses) gains on sales of investments	(14,324,448)	970,130	153,434	(13,200,884)	(1,477,906)			(1,477,906)
Change in net unrealized gains (losses) on investments	26,508,938	7,416,930		33,925,868	(40,005,457)		(335,203)	(40,340,660)
Appropriations and transfers	529,766	(529,766)		-				
Costs and expenses related to the Oceanarium Renovation Project	(1,460,457)			(1,460,457)	(2,824,962)			(2,824,962)
Total non-operating items	14,635,664	7,857,294	153,434	22,646,392	(39,339,721)	-	(335,203)	(39,674,924)
NET ASSET RECLASSIFICATION BASED ON CHANGE IN LAW	(21,005,948)	21,005,948		-				-
CHANGE IN NET ASSETS	(6,681,559)	28,310,050	156,347	21,784,838	(37,872,972)	14,876,561	(129,460)	(23,125,871)
NET ASSETS AT BEGINNING OF THE YEAR	220,932,319	15,106,343	11,315,838	247,354,500	258,805,291	229,782	11,445,298	270,480,371
NET ASSETS AT END OF THE YEAR	\$ 214,250,760	\$ 43,416,393	\$ 11,472,185	\$ 269,139,338	\$ 220,932,319	\$ 15,106,343	\$ 11,315,838	\$ 247,354,500

The accompanying notes are an integral part of these financial statements.

SHEDD AQUARIUM SOCIETY

For the Years Ended December 31, 2009 and 2008

STATEMENTS OF CASH FLOWS

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 21,784,838	\$ (23,125,871)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	10,950,426	7,628,910
Write off of net book value of certain assets	-	876,297
(Increase) decrease in accounts receivable	(1,077,098)	528,179
(Increase) decrease in beneficial interest in a perpetual trust	(253,434)	235,203
Decrease (increase) in pledges receivable	414,146	(14,170,756)
(Decrease) in accounts payable and accrued expenses	(9,276,233)	(3,011,348)
Increase (decrease) in deferred revenue	401,041	(347,196)
Permanently restricted contributions	2,913	(94,257)
Interest and dividends on investments	(3,381,865)	(4,648,695)
Net realized and unrealized (gains) losses on investments	(20,724,983)	41,483,363
Increase in prepaid expenses and other assets	(1,589,434)	(388,879)
Other	692,560	660,832
Net cash (used) provided by operating activities	<u>(2,057,123)</u>	<u>5,625,782</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	121,009,721	235,716,398
Purchases of investments	(106,447,385)	(226,580,928)
Additions to building, improvements and equipment	(38,744,243)	(28,346,423)
Net cash used by investing activities	<u>(24,181,907)</u>	<u>(19,210,953)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	25,000,000	-
Repayment of bond principal	(1,080,000)	(1,045,000)
Permanently restricted contributions	-	94,257
Net cash provided (used) by financing activities	<u>23,920,000</u>	<u>(950,743)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,319,030)	(14,535,914)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>8,833,074</u>	<u>23,368,988</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,514,044</u>	<u>\$ 8,833,074</u>
NONCASH INVESTING ACTIVITIES		
Accrued amounts for the Oceanarium Renovation Project	\$ 601,137	\$ 10,652,034

The accompanying notes are an integral part of these financial statements.

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

The Shedd Aquarium Society (the Society) is a not-for-profit corporation established to own and operate the John G. Shedd Aquarium in the city of Chicago, Illinois. Under the terms of its organization, the Society owns the aquarium building and equipment; the building, however, is located on land owned by the Chicago Park District, which has been leased in perpetuity to the Society at no cost.

The Society is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code; therefore, it is not subject to state or Federal taxes on income related to its exempt purposes. The Society is not aware of any potential risk to its tax-exempt status at this time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents

Cash equivalents are highly liquid, short-term investments with maturities of 90 days or less at the time of purchase that have not been designated by the board of trustees or restricted by donors for long-term investment. The Society maintains its cash and cash equivalents in bank deposit accounts that exceed federally insured limits. The Society has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments are stated at fair value, plus accrued interest and dividends; see Note 4. Net realized and the change in unrealized gains (losses) on investments are reflected in the Statement of Activities and Changes in Net Assets. Gains and losses from sales of securities are recognized upon disposition based on the average historical cost method. Investment income for 2009 and 2008 is reported net of related expenses of \$394,506 and \$332,338, respectively.

During 2008, the Society adopted the new GAAP guidance on fair value measurements and disclosures for all financial assets and liabilities carried at fair value. The new guidance defined fair value, established a framework for measuring fair value and expanded disclosures about fair value measurements. In 2009, the Society adopted the guidance for nonrecurring fair value measurements of nonfinancial assets and liabilities, which guidance had been previously deferred. The adoption of this guidance had no effect on the Society's financial condition or results of its operations. In 2009, the Society adopted guidance on fair value measurements that permits the use of net asset value for certain investments that do not have a readily determinable fair value. The adoption of this guidance had no effect on the Society's financial statements other than a change in its disclosures.

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Live Animal Inventory

The costs of purchasing or collecting live animals are expensed as incurred. Donated specimens are not valued and, therefore, are not reflected in the financial statements.

Pledges Receivable

Pledges receivable represent unconditional promises to give with payments due in future periods. They are reported as either temporarily or permanently restricted support unless explicit donor stipulations or circumstances surrounding the pledge make clear the donor intended it to be used to support activities of the current period. Pledges receivable are reported at the fair value of estimated future cash flows, less an appropriate allowance for estimated uncollectible amounts. Amortization of the discount is recorded as additional contribution revenue.

Building, Improvements and Equipment

Building, improvements and equipment are recorded at cost and depreciated using the straight-line method based on the following estimated useful lives:

Original building	80 years
Building additions	40 years
Building improvements and Renovations	15-40 years
Machinery and equipment	3-10 years

Beneficial Interest in a Perpetual Trust

As of December 31, 2004, the Society met the conditions of a grant that provides a beneficial interest in a perpetual trust; the fair value of the trust assets was \$624,592 at that time. Under the terms of the grant, deposits of \$100,000 were made in subsequent years to the perpetual trust for the benefit of the Society. The assets in the perpetual trust are permanently restricted; however, interest earned by the perpetual trust is distributed to the Society annually for support of general operations.

Chicago Park District Support

The Society receives support from the Chicago Park District (the CPD) based upon CPD's annual tax levy ordinance that includes a levy for museums situated on CPD land. This support is recorded by the Society when known, which is approximately 18 months after the assessment period. In addition, from time-to-time, CPD provides matching funds in support of specific capital projects. The Society considers such non-recurring support as non-operating revenue.

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Goods and Services

The Society records various types of in-kind support including donated professional services and supplies. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. In-kind support of \$479,373 and \$566,864 is reflected in the accompanying financial statements for the years ended December 31, 2009 and 2008, respectively, and is offset by like amounts included in expenses.

A substantial number of unpaid volunteers have made significant contributions of their time that do not meet the two recognition criteria described above. Accordingly, the value of this donated time is not reflected in the financial statements.

Functional Allocation of Expenses

The costs of providing Society programs and administration have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Display of Net Assets by Class

The net assets of the Society are reported in each of the following three classes: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets.

Net assets of classes (b) and (c) above are created only by donor-imposed restrictions on their use. All other net assets, including board-designated or appropriated amounts, are legally unrestricted and are reported as part of the unrestricted class.

The Society reports gifts of cash, grants and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. However, if a donor restriction expires in the same year that the contribution was made, such contribution is reported as unrestricted support in the Statement of Activities and Changes in Net Assets. At December 31, 2009 and 2008, effectively all temporarily restricted net assets were available for general operations on the passage of time or, at December 31, 2009, appropriation by the Board of Trustees for expenditure (see Note 3). Permanently restricted net assets consist of a beneficial interest in a perpetual trust and endowment funds. Donors stipulated that the principal of these funds be forever kept invested and only the income

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

be used for operations of the Society. At December 31, 2009 and 2008, permanently restricted net assets were available to fund general operations (\$2,792,817 and \$2,636,470, respectively), educational programs (\$7,479,368), conservation activities (\$1,000,000) and special projects (\$200,000).

See Note 3 for information regarding the reclassification of certain net assets in 2009.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) 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 as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

Under GAAP, the Society recognizes income tax liabilities or benefits at the time such amounts have been incurred and are reasonably estimable. Any potential interest or penalties related to possible future tax liabilities are recorded as income tax expense. The Society believes it has no material unrecognized income tax benefits or liabilities at December 31, 2009 and 2008 and is no longer subject to examination by federal, state or local tax authorities for periods before 2006.

Subsequent Events

Management has evaluated subsequent events through the date of the issuance of the Society's financial statements. No material subsequent events have occurred since December 31, 2009 that required recognition or disclosure in these financial statements.

3. ENDOWMENT

The Society's endowment consists of several individual funds established for a variety of purposes, including donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The Society does not consider its beneficial interest in a perpetual trust to be part of its endowment since it has no control over the assets included in that perpetual trust.

As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

3. ENDOWMENT (continued)

On June 30, 2009, the State of Illinois enacted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Board of Trustees has interpreted the State of Illinois' UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Beginning in 2009, the remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA. Prior to the enactment of UPMIFA, the remaining portion of the donor-restricted endowment fund that was not classified in permanently restricted net assets was classified as unrestricted net assets. As a result of the change in the law, certain endowment net assets were reclassified from unrestricted to temporarily-restricted net assets as indicated in the second table below.

In accordance with UPMIFA, the Society considers the following factors, among others, in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Society and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Society; and
- The investment policies of the Society.

Information regarding the endowment net assets as of December 31, 2009 and 2008 and changes in endowment net assets for the years then ended follows.

	Endowment Net Assets as of December 31, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 28,863,242	\$ 10,420,076	\$ 39,283,318
Board-designated endowment funds	\$ 73,793,670			73,793,670
	<u>\$ 73,793,670</u>	<u>\$ 28,863,242</u>	<u>\$ 10,420,076</u>	<u>\$113,076,988</u>

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

3. ENDOWMENT (continued)

	Changes in Endowment Net Assets Year Ended December 31, 2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of the year	\$ 80,657,266	\$ -	\$ 10,420,076	\$ 91,077,342
Investment return:				
Investment income	1,809,274	970,130		2,779,404
Net change in market Value	12,402,110	7,416,930		19,819,040
Total investment return	14,211,384	8,387,060		22,598,444
Appropriation of endowment assets for Expenditure	(418,440)	(522,600)		(941,040)
Transfers	349,408	(7,166)		342,242
Net asset reclassification based on change in the law	(21,005,948)	21,005,948		-
Endowment net assets, end of the year	<u>\$ 73,793,670</u>	<u>\$ 28,863,242</u>	<u>\$ 10,420,076</u>	<u>\$113,076,988</u>
	Endowment Net Assets as of December 31, 2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 21,794,996	\$ -	\$ 10,420,076	\$ 32,215,072
Board-designated endowment funds	58,862,270			58,862,270
	<u>\$ 80,657,266</u>	<u>\$ -</u>	<u>\$ 10,420,076</u>	<u>\$ 91,077,342</u>

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

3. ENDOWMENT (continued)

	Changes in Endowment Net Assets Year Ended December 31, 2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of the year	\$ 121,931,712	\$ -	\$ 10,220,076	\$ 132,151,788
Investment return:				
Investment income	1,704,550			1,704,550
Net change in market Value	<u>(38,585,625)</u>			<u>(38,585,625)</u>
Total investment loss	<u>(36,881,075)</u>			<u>(36,881,075)</u>
Contributions	-		200,000	200,000
Appropriation of endowment assets for Expenditure	<u>(4,393,371)</u>			<u>(4,393,371)</u>
Endowment net assets, end of the year	<u>\$ 80,657,266</u>	<u>\$ -</u>	<u>\$ 10,420,076</u>	<u>\$ 91,077,342</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are in excess of temporarily-restricted amounts are reported in unrestricted net assets. Such amount totaled \$3,170 as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of newer permanently restricted contributions. There were no such deficiencies as of December 31, 2009.

The Society's overall investment objective for its endowment is the preservation of capital combined with long-term growth through capital appreciation in order to support the Society in perpetuity. The Society's investment policies are designed to preserve the purchasing power of the Society's portfolio as well as balance present institutional needs with those of the future. To achieve this goal, the Society's investments are broadly diversified among asset classes. The Society expects its endowment funds, over time, to achieve a long-term compound return of 6% plus the rate of inflation; however, actual returns in any given year may vary from that amount.

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

3. ENDOWMENT (continued)

The Society has appropriated for current year operations less than 5% of certain permanently restricted and board-designated funds' average balances over the prior twelve quarters. The amounts appropriated totaled less than \$1 million in each of 2009 and 2008. The Society believes its policy of limiting spending to no more than 5% of the funds' trailing three-year average market value will allow the endowment to grow at an average rate in excess of inflation over the long term.

4. FAIR VALUE MEASUREMENTS

Under GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach, each of which includes multiple valuation techniques. The topic does not prescribe which valuation technique should be used when measuring fair value but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques.

Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Financial assets and liabilities carried at fair value are classified in one of the following three categories based upon the inputs to the valuation technique:

Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which the transactions for the asset and liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As required by GAAP, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Society's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect an investment's placement within the fair value hierarchy.

The following table sets forth by input level within the fair value hierarchy, the Society's investments, which were accounted for at fair value on a recurring basis as of December 31, 2009 (in 000s).

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

4. FAIR VALUE MEASUREMENTS (continued)

	As of December 31, 2009			
	Total	Level 1	Level 2	Level 3
Domestic equity securities	\$ 27,725	\$25,297	\$ 2,428	
International equity securities	32,137	13,133	19,004	
Fixed-income securities	36,112	26,023	10,089	
U.S. Government, U.S. Government-guaranteed and agency securities	17,582	17,582		
Asset-backed securities	526	526		
Bank certificates of deposit	2,475		2,475	
Commercial paper	1,999	1,999		
Collective short-term investment funds	233		233	
Hedge fund-of-funds	11,890		11,890	
Private equity limited partnerships	1,710			\$1,710
Real assets	5,824	5,242		582
	<u>\$138,213</u>	<u>\$89,802</u>	<u>\$46,119</u>	<u>\$2,292</u>
	As of December 31, 2008			
	Total	Level 1	Level 2	Level 3
Domestic equity securities	\$ 21,758	\$ 9,858	\$11,900	
International equity securities	23,736	3,574	20,162	
Fixed-income securities	30,083	22,272	7,811	
U.S. Government and agency Securities	24,956	24,956		
Asset-backed securities	571	571		
Bank certificate of deposit and bankers' acceptances	2,326		2,326	
Commercial paper	3,949	3,949		
Collective short-term investment funds	1,821		1,821	
Real-estate investment trust securities	3,582	3,582		
Hedge fund-of-funds	10,349			\$10,349
Private equity limited partnerships	1,139			1,139
Real assets	4,220	3,868		352
	<u>\$128,490</u>	<u>\$72,630</u>	<u>\$44,020</u>	<u>\$11,840</u>

The Society's investments included in Level 1 are all marketable securities; their fair values were determined by readily available quoted market prices. Exclusive of the hedge fund-of-

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

4. FAIR VALUE MEASUREMENTS (continued)

funds as of December 31, 2009, investments included in Level 2 are highly liquid and the underlying investments are primarily marketable securities. As a result, the estimated fair value of these investments is based primarily on observable market inputs and does not require significant judgment by the Society's management.

As of December 31, 2009, the fair value of the hedge fund-of-funds included in Level 2 is based on the proceeds received subsequent to December 31, 2009 plus as estimated amount for the remaining balance, which will be determined upon issuance of the fund's financial statements. At December 31, 2009, the cost of this investment exceeded its fair value by approximately \$694,000.

Investments included in Level 3 are comprised of interests in several limited partnerships. To estimate the fair value of these investments, the Society's management considered various inputs such as net asset value, available subsequent interim financial information, the liquidity and transferability terms of the investment agreements, evidence of transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities and overall market conditions.

The following tables present a reconciliation of the beginning and ending balances recorded for instruments classified as Level 3 in the fair value hierarchy (in 000s).

	2009		
	Hedge Fund-of- Funds	Limited Partnership Interests	Total
Balance as of December 31, 2008	\$ 10,349	\$ 1,491	\$11,840
Purchases, issuances and settlements, net		450	450
Total unrealized market value change	1,541	351	1,892
Transfer to Level 2	(11,890)		(11,890)
Balance as of December 31, 2009	<u>\$ -</u>	<u>\$ 2,292</u>	<u>\$ 2,292</u>

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

4. FAIR VALUE MEASUREMENTS (continued)

		2008	
	Hedge Fund-of- Funds	Limited Partnership Interests	Total
Balance as of December 31, 2007	\$ 12,685	\$ 81	\$12,766
Purchases, issuances and settlements, net		1,699	1,699
Total unrealized market value change	<u>(2,336)</u>	<u>(289)</u>	<u>(2,625)</u>
Balance as of December 31, 2008	<u>\$ 10,349</u>	<u>\$ 1,491</u>	<u>\$11,840</u>

Level 3 unrealized gains (losses) included in the changes in net assets for the years ended December 31, 2009 and 2008 are reported in net unrealized losses on investments in Non-Operating Items on the Statements of Activities and Changes in Net Assets. All such unrealized losses for the year related to assets held at the end of the year.

The Society had no financial liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009 or 2008.

The Society maintains investments in four private equity and real asset limited partnerships, each of which has distinct partnership terms and commitment periods. In general, partnership interests are not redeemable during the life of the partnership term although distributions (as determined by the general partner) are expected to occur throughout the period. Summary information for these investments as of December 31, 2009 and 2008 follows:

Secondary fund (fair value: \$463,835 and \$285,608, respectively): invests solely in secondary interests of other private equity funds; outstanding commitments at December 31, 2009 totaled \$1.5 million.

Distressed fund-of-funds (fair value: \$243,332 and \$124,741, respectively): invests primarily in funds engaging in distressed debt and equity investments; outstanding commitments at December 31, 2009 totaled \$1.7 million.

Diversified private equity fund-of-funds (fair value: \$1,003,355 and \$729,073, respectively): invests primarily in funds engaging in special situations; outstanding commitments at December 31, 2009 totaled \$1.9 million.

Oil and gas (fair value: \$581,698 and \$351,450, respectively): diversified portfolio of privately negotiated equity and equity-like investments in independent oil and gas companies; outstanding commitments at December 31, 2009 totaled \$1.3 million.

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

5. INVESTMENTS

Investments as of December 31, 2009 and 2008 are summarized as follows:

	2009	
	Fair Value	Historical Cost
Domestic equity securities	\$ 27,725,326	\$ 29,918,732
International equity securities	32,136,920	31,066,258
Fixed-income securities	36,111,709	35,026,433
U.S. Government, U.S. Government- guaranteed and agency securities	17,581,793	17,137,420
Asset-backed securities	525,980	525,000
Bank certificates of deposit	2,474,651	2,475,047
Commercial paper	1,999,506	1,998,992
Collective short-term investment funds	232,907	232,907
Hedge fund-of-funds	11,889,585	12,583,555
Private equity limited partnerships	1,710,522	1,819,565
Real assets	5,823,614	6,985,217
	<u>138,212,513</u>	<u>139,769,126</u>
Accrued interest and dividends	<u>76,374</u>	<u>76,374</u>
	<u>\$138,288,887</u>	<u>\$139,845,500</u>

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

5. INVESTMENTS (continued)

	2008	
	Fair Value	Historical Cost
Domestic equity securities	\$ 21,757,956	\$ 35,447,961
International equity securities	23,735,783	36,851,099
Fixed-income securities	30,082,860	31,055,173
U.S. Government and agency securities	24,956,359	24,673,732
Asset-backed securities	571,253	611,245
Bank certificate of deposit and bankers acceptances	2,326,516	2,326,850
Commercial paper	3,948,522	3,934,089
Collective short-term investment funds	1,821,084	1,821,084
Real-estate investment trust securities	3,581,636	6,584,943
Hedge fund-of-funds	10,349,016	12,583,550
Private equity limited partnerships	1,139,422	1,367,193
Real assets	4,219,865	6,715,834
	<u>128,490,272</u>	<u>163,972,753</u>
Accrued interest and dividends	<u>254,103</u>	<u>254,103</u>
	<u>\$128,744,375</u>	<u>\$164,226,856</u>

As of December 31, 2009 and 2008, fixed-income securities included an investment in PIMCO Total Return Fund (a publicly-traded mutual fund) with a market value of \$20,558,890 and \$18,095,562 and cost of \$19,436,065 and \$18,178,994, respectively.

The Society's investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near future and materially affect the amounts reported in the financial statements.

There were no realized gains or losses related to sales of alternative investments during 2009 or 2008.

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

6. PLEDGES RECEIVABLE

Various donors have made unconditional pledges of support to the Society. Pledges as of December 31, 2009, all of which are temporarily restricted, are expected to be collected as follows:

2010	\$ 3,716,816
2011 – 2014	<u>11,066,228</u>
	14,783,044
Less discounts at rates of 3-5%	616,028
Less allowance for estimated Uncollectible amounts	<u>27,194</u>
	<u>\$14,139,822</u>

7. BONDS AND LOAN PAYABLE

Bonds and loan payable outstanding as of December 31, 2009 and 2008 were:

	<u>2009</u>	<u>2008</u>
Bonds payable	\$ 30,365,000	\$ 31,445,000
Premium	<u>1,060,332</u>	<u>1,154,766</u>
	31,425,332	32,599,766
Loan payable	<u>25,000,000</u>	<u>-</u>
	<u>\$ 56,425,332</u>	<u>\$ 32,599,766</u>

In November 2005, the Society issued tax-exempt bonds through the Illinois Finance Authority in the total principal amount of \$34,435,000 (the Series 2005 Bonds). The net proceeds (along with additional funds from the Society) were used to defease certain bonds that had been issued in 1997 and were called in 2007.

The Series 2005 bonds have maturities and mandatory redemptions through July 1, 2027, and bear interest at rates ranging from 3.75% to 5.25%. Bonds maturing on or after July 1, 2016 are redeemable by the Society beginning July 1, 2015 at a price of 100%.

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

7. BONDS AND LOAN PAYABLE (continued)

Maturities and mandatory redemptions are as follows for the Series 2005 bonds as of December 31, 2009:

<u>Year</u>	<u>Amount</u>	<u>Stated Interest Rate</u>	<u>Effective Interest Rate</u>
2010	\$ 1,120,000	3.75%	3.45%
2011	1,165,000	3.75%	3.60%
2012	1,205,000	4.00%	3.73%
2013	1,255,000	4.00%	3.85%
2014	1,305,000	5.00%	3.96%
2015 – 2027	24,315,000	4.50 - 5.25%	4.03 - 4.73%

Based on the rates currently in effect for bonds issued by similar issuers, with similar terms and average maturities, it is estimated that the fair value of the Series 2005 bonds as of December 31, 2009 was \$31,332,984.

Expenses incurred in connection with the Series 2005 bond issue were deferred and are being amortized on a straight-line basis over the period the bonds are to be outstanding.

In February 2009, the Society drew \$25 million on an unsecured revolving line of credit (the Revolver) obtained from a bank to provide bridge financing for the period over which pledge payments are expected to be received for the Oceanarium Renovation Project (see Note 9). The Revolver converted automatically on January 31, 2010 to a term-loan facility, which expires on January 31, 2014 and carries an interest rate of LIBOR plus 75 basis points on the amount drawn. As of December 31, 2009, the Revolver bore a weighted-average interest rate of 0.994%.

Principal payments are due on the Revolver as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 2,500,000
2011	2,500,000
2012	2,500,000
2013	2,500,000
2014	15,000,000

Under the terms of the Series 2005 issue, the Society has agreed not to issue additional long-term debt (as defined) unless certain financial ratios are met. The terms of the Revolver contain debt covenants including the requirements that the Society maintain Cash and Allowable Securities (as defined) at least equal to the amount of debt outstanding and Net

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

7. BONDS AND LOAN PAYABLE (continued)

Operating Revenues (as defined) at least equal to annual debt service.

The Society was in compliance with all its debt covenants during 2009 and 2008.

Interest cost incurred in 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Total interest incurred and Paid	\$ 1,665,534	\$ 1,517,111
Less amount capitalized	<u>(813,340)</u>	<u>(767,910)</u>
Total interest expensed	<u>\$ 852,194</u>	<u>\$ 749,201</u>

8. EMPLOYEE AND RETIREE BENEFITS

The Society maintains a 401(k) defined contribution plan covering all employees who are at least 21 years of age and have at least one year of service. Employees may contribute a percentage of their pre-tax compensation to the plan; the Society has agreed to match employee contributions in an amount equal to 100% of the first 3% of pre-tax contributions and 50% of the next 2% of pre-tax contributions made to the plan by each participant. In addition, the Society has agreed to contribute to the plan an amount equal to 2% of all participants' eligible compensation. Total employer contributions expensed during 2009 and 2008, respectively, were \$739,793 and \$705,118.

Employees retiring on or after attaining age 65 who meet certain years of service requirements are eligible to continue coverage for group health insurance benefits. Eligible retirees with less than 25 years of service who choose to continue coverage are required to pay periodic premiums based on the retiree's length of service. All participants are required to pay future increases in cost of the coverage. In 2009 and 2008, retirees paid \$24,348 and \$26,717, respectively, toward this coverage. The Society funds these benefit costs on a pay-as-you-go basis; therefore, there are no plan assets. Benefit payments made by the Society were \$23,778 and \$16,273 in 2009 and 2008, respectively. The Society does not anticipate that the level of benefit payments will be significant to the Society over the next ten years.

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

8. EMPLOYEE AND RETIREE BENEFITS (continued)

The following table sets forth the plan's post-retirement benefit obligation as of December 31:

	<u>2009</u>	<u>2008</u>
Accumulated postretirement benefit obligation		
Retirees	\$ 194,000	\$ 172,000
Active employees eligible to retire	154,000	132,000
Active employees not eligible to retire	<u>1,342,000</u>	<u>1,076,000</u>
Accrued postretirement benefit cost	<u>\$1,690,000</u>	<u>\$1,380,000</u>

Net periodic postretirement benefit cost included the following components for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Service costs - benefits earned during the year	\$ 112,000	\$ 90,000
Interest cost on accumulated postretirement benefit obligation	84,000	71,000
Amortization of net gain	<u>(9,000)</u>	<u>(21,000)</u>
Net periodic postretirement benefit obligation	<u>\$ 187,000</u>	<u>\$ 140,000</u>

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation at December 31, 2009 and 2008 ranged from 8.0% for 2010 to 5.0% for 2022 and beyond, and 7.5% for 2009 to 6.0% for 2015 and beyond, respectively. For 2009 and 2008, the discount rates used in determining annual expenses were 6.15% and 6.48%, respectively, and 5.97% and 6.15%, respectively, for determining disclosure liabilities.

If the health care cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of December 31, 2009 would be increased by \$144,000. The effect of this change on the service and interest cost components of the net periodic postretirement benefit expense for 2009 would be an increase of \$21,000. If the health care cost trend rate assumptions were decreased by 1%, the accumulated postretirement benefit obligation as of December 31, 2009 would be decreased by \$128,000. The effect of this change on the service and interest cost components of the net periodic postretirement benefit expense for 2009 would be a decrease of \$19,000.

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS (continued)

8. EMPLOYEE AND RETIREE BENEFITS (continued)

The Society has established a Section 457(f) deferred incentive compensation plan, a Section 457(f) target benefit plan and a Section 457(b) retirement income deferral plan for a select group of management or highly compensated employees. The deferred incentive compensation plan and the retirement income deferral plan allow eligible employees to defer a percentage of their pre-tax compensation. The Society may make contributions for the benefit of eligible employees; the Society contributed \$208,158 in 2009 and \$341,979 in 2008 to the Section 457(f) plans and made no contributions to the 457(b) plan. Balances in the 457(f) plans are subject to forfeiture until age or certain other requirements are met. Under the terms of the 457(b) plan, amounts deferred by eligible employees are always vested, while separate vesting provisions may be established for amounts related to employer contributions. The assets in the plans are held in trust but remain the property of the Society and are subject to the claims of the Society's general creditors. The Society's liability for benefits under these plans is limited to the balance of assets in the plans. As of December 31, 2009 and 2008, total assets of the plans were \$2,157,033 and \$1,756,096, respectively.

9. OCEANARIUM RENOVATION PROJECT

In December 2006, the Board of Trustees of the Society approved a conceptual plan to renovate the Oceanarium addition and make certain other improvements to the original building. The project, the total expenditures for which approximated \$79 million, was completed in 2009.

During the years ended December 31, 2009 and 2008, the Society expensed approximately \$1.5 million and \$2.8 million, respectively, in costs incurred in conjunction with the project, as included in Non-Operating Items in the Statement of Activities and Changes in Net Assets. These costs include such items as the write off of the net book value of certain assets taken out of service as a result of the renovation (approximately \$876,000) and expenses related to the temporary relocation of animals regularly housed in the Oceanarium (\$1.8 million).

10. OPERATING EXPENSES BY NATURAL CATEGORY

Operating expenses incurred by the Society during the years ended December 31, 2009 and 2008 according to their natural categories follow.

SHEDD AQUARIUM SOCIETY

December 31, 2009 and 2008

NOTES TO FINANCIAL STATEMENTS

10. EXPENSES BY NATURAL CATEGORY (continued)

	2009								
	Exhibits	Animal Husbandry	Education, Outreach, Interpretation and Conservation	Guest Services	Ancillary Services	Development and Membership	Fundraising Events	Management and General	Total
Salaries	\$ 2,745,564	\$ 4,170,677	\$ 3,001,316	\$ 1,694,288	\$ 161,348	\$ 1,329,646	\$ 1,873	\$ 3,726,426	\$ 16,831,138
Employee benefits	766,594	1,115,748	796,746	331,120	44,834	350,689	498	1,400,914	4,807,143
Professional development	5,918	12,340	45,552	9,929	633	8,038	-	45,837	128,247
Professional fees	-	-	17,234	-	-	-	-	112,581	129,815
Outsourcing fees	465,684	187,235	454,540	16,799	104,105	8,663	1,408	35,958	1,274,392
Outside contractors	6,890	-	70,900	-	-	8,668	892	3,450	90,800
Contractual services	182,685	335,752	200,028	1,092,590	23,101	95,005	141,435	940,905	3,011,501
Printing and production	292	465	576,330	6,905	-	65,180	-	117,080	766,252
Advertising	-	-	-	-	-	-	-	1,925,967	1,925,967
Supplies	630,979	802,762	366,818	196,617	16,838	53,925	50,490	346,184	2,464,613
Telephone and communications	19,834	22,463	21,312	9,452	12,162	9,037	538	37,464	132,262
Postage and shipping	2,372	75,824	6,130	7,419	799	35,850	4,386	108,447	241,227
Travel and meetings	10,410	104,323	292,427	9,774	2,696	54,764	337,375	162,225	973,994
Repairs and maintenance	800,508	182,335	136,532	19,060	108,667	29,175	-	206,772	1,483,049
Occupancy	1,056,286	422,078	172,704	37,773	201,497	18,019	-	88,894	1,997,251
Insurance	-	18,988	50,601	-	775	-	-	445,716	516,080
Grants and contributions	-	-	88,000	-	-	-	-	-	88,000
Miscellaneous	21,547	8,992	221,270	3,533	18,240	60,257	10,830	246,982	591,651
Interest expense	849,895	-	-	-	-	2,299	-	-	852,194
Depreciation	5,734,117	2,304,277	945,754	206,850	1,103,432	94,808	-	422,467	10,811,705
Total operating expenses	<u>\$ 13,299,575</u>	<u>\$ 9,764,259</u>	<u>\$ 7,464,194</u>	<u>\$ 3,642,109</u>	<u>\$ 1,799,127</u>	<u>\$ 2,224,023</u>	<u>\$ 549,725</u>	<u>\$ 10,374,269</u>	<u>\$ 49,117,281</u>

	2008								
	Exhibits	Animal Husbandry	Education, Outreach, Interpretation and Conservation	Guest Services	Ancillary Services	Development and Membership	Fundraising Events	Management and General	Total
Salaries	\$ 2,586,426	\$ 3,694,213	\$ 2,676,886	\$ 1,506,479	\$ 202,832	\$ 1,358,800	\$ 2,916	\$ 3,288,872	\$ 15,317,424
Employee benefits	699,267	975,201	706,104	307,512	55,719	348,610	802	1,395,391	4,488,606
Professional development	24,435	36,122	51,827	20,673	331	8,882	-	100,652	242,922
Professional fees	-	-	-	-	-	5,567	-	100,780	106,347
Outsourcing fees	511,889	205,951	89,081	18,466	129,734	11,017	2,664	41,841	1,010,643
Outside contractors	15,760	4,400	59,120	-	-	19,858	4,919	41,464	145,521
Contractual services	47,448	194,519	170,880	1,252,572	7,012	307,614	111,122	936,761	3,027,928
Printing and production	-	-	651,964	139,987	-	85,492	130	3,386	880,959
Advertising	-	-	-	-	-	-	-	1,673,041	1,673,041
Supplies	461,404	841,013	380,606	139,139	14,199	187,430	59,951	165,804	2,249,546
Telephone and communications	17,492	21,069	19,034	7,885	14,591	6,071	38	55,659	141,839
Postage and shipping	2,503	4,364	12,470	21,318	409	146,101	5,612	15,679	208,456
Travel and meetings	11,911	68,333	268,958	23,031	3,143	81,691	312,360	178,627	948,054
Repairs and maintenance	682,926	159,936	102,990	17,312	111,936	27,669	-	181,724	1,284,493
Occupancy	1,100,495	442,916	181,311	39,655	211,539	18,861	-	89,961	2,084,738
Insurance	-	1,688	38,101	-	775	-	-	430,674	471,238
Grants and contributions	-	-	86,000	-	-	-	-	-	86,000
Miscellaneous	300	3,015	50,697	5,033	23,194	20,349	260,637	231,609	594,834
Interest expense	747,381	-	-	-	-	1,820	-	-	749,201
Depreciation	4,051,313	1,628,035	668,201	146,145	779,605	66,984	-	298,485	7,638,768
Total operating expenses	<u>\$ 10,960,950</u>	<u>\$ 8,280,775</u>	<u>\$ 6,214,230</u>	<u>\$ 3,645,207</u>	<u>\$ 1,555,019</u>	<u>\$ 2,702,816</u>	<u>\$ 761,151</u>	<u>\$ 9,230,410</u>	<u>\$ 43,350,558</u>