

**SHEDD AQUARIUM SOCIETY**  
**December 31, 2017 and 2016**  
**FINANCIAL STATEMENTS**

**SHEDD AQUARIUM SOCIETY**

**December 31, 2017 and 2016**

**FINANCIAL STATEMENTS**

Report of Independent Auditors

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## Independent Auditor's Report

To the Board of Trustees  
Shedd Aquarium Society

We have audited the accompanying financial statements of Shedd Aquarium Society (the "Society"), which comprise the statement of financial position as of December 31, 2017 and 2016 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shedd Aquarium Society as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

April 26, 2018

**SHEDD AQUARIUM SOCIETY**

**December 31, 2017 and 2016**

**STATEMENTS OF FINANCIAL POSITION**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 23,300,979	\$ 21,464,352
Accounts receivable	1,864,503	1,544,545
Pledges receivable	2,007,011	1,308,866
Prepaid expenses and other assets	1,380,681	932,704
Building, improvements and equipment:		
Building	104,197,518	104,197,518
Building improvements and renovations	133,017,291	128,406,793
Machinery and equipment	57,950,366	56,799,148
Construction in progress	4,108,468	4,280,527
	<u>299,273,643</u>	<u>293,683,986</u>
Less accumulated depreciation	<u>(175,965,373)</u>	<u>(163,767,583)</u>
	123,308,270	129,916,403
Investments	267,865,708	235,002,553
Beneficial interest in a perpetual trust	<u>1,424,087</u>	<u>1,294,771</u>
	<u>\$ 421,151,239</u>	<u>\$ 391,464,194</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses	\$ 4,913,755	\$ 6,710,614
Deferred revenue	980,363	794,674
Bond payable, net of issuance costs	19,892,761	21,374,958
Accrued post-retirement benefits	4,502,067	3,865,336
	<u>30,288,946</u>	<u>32,745,582</u>
Net assets:		
Unrestricted	318,771,473	295,669,702
Temporarily restricted	57,710,756	48,798,162
Permanently restricted	14,380,064	14,250,748
	<u>390,862,293</u>	<u>358,718,612</u>
	<u>\$ 421,151,239</u>	<u>\$ 391,464,194</u>

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

**SHEDD AQUARIUM SOCIETY**

For the Years Ended December 31, 2017 and 2016

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES</b>								
Admissions	\$ 34,513,135			\$ 34,513,135	\$ 34,505,605			\$ 34,505,605
Tax appropriations	3,930,841			3,930,841	4,077,152			4,077,152
Ancillary services	4,502,038			4,502,038	4,539,049			4,539,049
Memberships and contributions	12,333,411	2,155,227		14,488,638	10,239,545	673,940	5,000	10,918,485
Educational programs and trips	1,402,867			1,402,867	1,266,153			1,266,153
Fundraising events	962,088			962,088	1,245,082			1,245,082
Net assets released from restrictions:								
Satisfaction of restrictions	1,350,440	(1,350,440)		-	3,021,223	(3,021,223)		-
Miscellaneous	63,782			63,782	71,442			71,442
<b>Total operating revenues</b>	<b>59,058,602</b>	<b>804,787</b>	<b>-</b>	<b>59,863,389</b>	<b>58,965,251</b>	<b>(2,347,283)</b>	<b>5,000</b>	<b>56,622,968</b>
<b>OPERATING EXPENSES</b>								
Conservation education	24,605,599			24,605,599	23,818,388			23,818,388
Animal care	12,479,228			12,479,228	12,041,801			12,041,801
Conservation science and research	2,599,522			2,599,522	2,164,814			2,164,814
Guest services	5,972,854			5,972,854	5,561,177			5,561,177
Ancillary services	1,781,969			1,781,969	1,705,341			1,705,341
Development and membership	3,463,833			3,463,833	3,691,835			3,691,835
Fundraising events	642,972			642,972	615,188			615,188
Management and genera	8,539,549			8,539,549	9,201,993			9,201,993
<b>Total operating expenses</b>	<b>60,085,526</b>	<b>-</b>	<b>-</b>	<b>60,085,526</b>	<b>58,800,537</b>	<b>-</b>	<b>-</b>	<b>58,800,537</b>
<b>Net (loss) revenue from operations</b>	<b>(1,026,924)</b>	<b>804,787</b>	<b>-</b>	<b>(222,137)</b>	<b>164,714</b>	<b>(2,347,283)</b>	<b>5,000</b>	<b>(2,177,569)</b>
<b>NON-OPERATING ITEMS</b>								
Interest and dividends	415,681	106,609		522,290	223,516	60,003		283,519
Net realized gains (losses) on sales of investments	931,555	326,554	129,316	1,387,425	(1,079,247)	(447,308)	30,589	(1,495,966)
Unrealized gains on investments	22,414,139	8,535,644		30,949,783	8,727,234	3,336,132		12,063,366
Appropriations and transfers	776,779	(776,779)		-	403,328	(403,328)		-
Actuarial (loss) gain related to retirees medical plan	(440,000)			(440,000)	466,000			466,000
Long-range planning costs	(92,058)			(92,058)	-			-
Support for capital projects	38,378			38,378	777,276			777,276
Net assets released from restrictions:								
Satisfaction of restrictions	84,221	(84,221)		-	500,000	(500,000)		-
Write off of certain assets	-			-	(244,492)			(244,492)
<b>Total non-operating items</b>	<b>24,128,695</b>	<b>8,107,807</b>	<b>129,316</b>	<b>32,365,818</b>	<b>9,773,615</b>	<b>2,045,499</b>	<b>30,589</b>	<b>11,849,703</b>
<b>CHANGE IN NET ASSETS</b>	<b>23,101,771</b>	<b>8,912,594</b>	<b>129,316</b>	<b>32,143,681</b>	<b>9,938,329</b>	<b>(301,784)</b>	<b>35,589</b>	<b>9,672,134</b>
<b>NET ASSETS AT BEGINNING OF THE YEAR</b>	<b>295,669,702</b>	<b>48,798,162</b>	<b>14,250,748</b>	<b>358,718,612</b>	<b>285,731,373</b>	<b>49,099,946</b>	<b>14,215,159</b>	<b>349,046,478</b>
<b>NET ASSETS AT END OF THE YEAR</b>	<b>\$ 318,771,473</b>	<b>\$ 57,710,756</b>	<b>\$ 14,380,064</b>	<b>\$ 390,862,293</b>	<b>\$ 295,669,702</b>	<b>\$ 48,798,162</b>	<b>\$ 14,250,748</b>	<b>\$ 358,718,612</b>

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

**SHEDD AQUARIUM SOCIETY**

**For the Years Ended December 31, 2017 and 2016**

**STATEMENTS OF CASH FLOWS**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 32,143,681	\$ 9,672,134
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,818,502	12,300,663
Write off of certain assets	-	244,492
Support for capital projects	(38,378)	(777,276)
Permanently restricted contributions	-	(5,000)
Interest and dividends on investments	(522,290)	(283,519)
Net realized and unrealized gains on investments	(32,337,208)	(10,567,400)
Increase in beneficial interest in a perpetual trust	(129,316)	(30,589)
Increase (decrease) in accrued post-retirement benefit expense	636,731	(130,594)
Increase in accounts receivable	(319,958)	(219,598)
(Increase) decrease in pledges receivable	(698,145)	1,697,751
(Increase) decrease in prepaid expenses and other assets	(1,014,735)	693,077
Increase (decrease) in accounts payable and accrued expenses	383,928	(498,974)
Increase (decrease) in deferred revenue	185,689	(120,817)
Net cash provided by operating activities	<u>11,108,501</u>	<u>11,974,350</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	2,362,330	60,637,760
Purchases of investments	(2,365,987)	(60,750,594)
Additions to building, improvements and equipment	(7,796,595)	(6,558,569)
Net cash used by investing activities	<u>(7,800,252)</u>	<u>(6,671,403)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of bond principal	(1,510,000)	(1,440,000)
Support for capital projects	38,378	777,276
Permanently restricted contributions	-	5,000
Net cash used by financing activities	<u>(1,471,622)</u>	<u>(657,724)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,836,627	4,645,223
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>21,464,352</u>	<u>16,819,129</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 23,300,979</u>	<u>\$ 21,464,352</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Accrued amounts for building, improvements and equipment	\$ 548,615	\$ 2,729,402

The accompanying notes are an integral part of these financial statements

# **SHEDD AQUARIUM SOCIETY**

**December 31, 2017 and 2016**

## **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 its contents; 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. 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. Generally Accepted Accounting Principles (GAAP) establishes a framework for measuring fair value and a fair value hierarchy based on the inputs used to measure fair value. This guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

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.

Net realized gains (losses) on the sales of investments 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. Interest and dividends for 2017 and 2016 are reported net of related expenses of \$196,280 and \$198,964, respectively.

# **SHEDD AQUARIUM SOCIETY**

**December 31, 2017 and 2016**

## **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 recorded at the present value of 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	10-40 years
Machinery and equipment	3-10 years

#### **Beneficial Interest in a Perpetual Trust**

The Society is the beneficiary of a perpetual trust held and administered by a community foundation. 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. The Society's beneficial interest in the perpetual trust is recorded at fair value.

#### **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.

#### **Donated Goods and Services**

The Society records various types of in-kind support including donated professional services, capital assets 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



# **SHEDD AQUARIUM SOCIETY**

**December 31, 2017 and 2016**

## **NOTES TO FINANCIAL STATEMENTS (continued)**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. In-kind support of \$354,175 and \$378,113 is reflected in the accompanying financial statements for the years ended December 31, 2017 and 2016, respectively, and is offset by like amounts included in building, improvements and equipment and 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.

#### **Measure of Operations**

The Society considers all revenues and expenses to be related to operations except investment income; actuarial gains or losses on retirees medical plan; long-range planning costs, funds received in support of specific capital projects; and write off of certain assets, which are categorized as non-operating items.

#### **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.

Temporarily restricted net assets include gifts of cash, pledges, grants and other assets that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges or other specific actions to be taken by the Society. In addition, appreciation and income on certain donor-restricted endowment funds are classified as temporarily restricted net assets until authorized for spending by the Board of Trustees. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, or amounts are appropriated for spending, 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, 2017 and 2016, effectively all temporarily restricted net assets were available for general operations on the passage of time or 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 invested in perpetuity and only the income be used for operations of the Society. At December 31, 2017 and 2016,

# **SHEDD AQUARIUM SOCIETY**

**December 31, 2017 and 2016**

## **NOTES TO FINANCIAL STATEMENTS (continued)**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

permanently restricted net assets were available to fund general operations (\$3,164,795 and \$3,035,479 respectively), educational programs and conservation activities (\$9,902,269), conservation activities (\$1,113,000) and special projects (\$200,000).

All other net assets, including board-designated or appropriated amounts, are legally unrestricted and are reported as part of the unrestricted class.

#### **Revenue Recognition**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Society's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Society is evaluating the new standard and the potential effects on the financial statements and disclosures.

#### **Financial Reporting**

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Society, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Society's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Society is currently gathering the appropriate information to implement these disclosure changes in a timely manner.

#### **Use of Estimates**

The preparation of financial statements 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.

# **SHEDD AQUARIUM SOCIETY**

**December 31, 2017 and 2016**

## **NOTES TO FINANCIAL STATEMENTS (continued)**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Income Taxes**

Income tax liabilities or benefits are recognized 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, 2017 and 2016.

#### **Subsequent Events**

Management has evaluated subsequent events through April 26, 2018, the date of the issuance of the Society's financial statements. No other material subsequent event has occurred since December 31, 2017 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.

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.

The State of Illinois has 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.



**SHEDD AQUARIUM SOCIETY**

**December 31, 2017 and 2016**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**3. ENDOWMENT (continued)**

	Changes in Endowment Net Assets Year Ended December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of the year	\$ 155,118,255	\$ 46,266,728	\$ 12,955,977	\$ 214,340,960
Investment return:				
Investment income	279,234	106,609		385,843
Net change in fair value	<u>23,212,190</u>	<u>8,862,198</u>		<u>32,074,388</u>
Total investment return	23,491,424	8,968,807		32,460,231
Contributions	175,069		-	175,069
Transfers	(121,704)	(46,563)		(168,267)
Appropriation of endowment assets for expenditure	<u>730,216</u>	<u>(730,216)</u>		<u>-</u>
Endowment net assets end of the year	<u>\$ 179,393,260</u>	<u>\$ 54,458,756</u>	<u>\$ 12,955,977</u>	<u>\$ 246,976,260</u>
	Endowment Net Assets as of December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 46,266,728	\$ 12,955,977	\$ 59,222,705
Board-designated funds	<u>155,118,255</u>			<u>155,118,255</u>
	<u>\$ 155,118,255</u>	<u>\$ 46,266,728</u>	<u>\$ 12,955,977</u>	<u>\$ 214,340,960</u>

# SHEDD AQUARIUM SOCIETY

December 31, 2017 and 2016

## NOTES TO FINANCIAL STATEMENTS (continued)

### 3. ENDOWMENT (continued)

	Changes in Endowment Net Assets Year Ended December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of the year	\$ 147,064,205	\$ 43,721,229	\$ 12,950,977	\$ 203,736,411
Investment return:				
Investment income	147,722	60,003		207,725
Net change in fair value	<u>7,500,000</u>	<u>2,888,824</u>		<u>10,388,824</u>
Total investment return	7,647,722	2,948,827		10,596,549
Contributions	3,000		5,000	8,000
Transfers	76,465	(76,465)		-
Appropriation of endowment assets for expenditure	<u>326,863</u>	<u>(326,863)</u>		<u>-</u>
Endowment net assets end of the year	<u>\$ 155,118,255</u>	<u>\$ 46,266,728</u>	<u>\$ 12,955,977</u>	<u>\$ 214,340,960</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. Deficiencies of this nature that are in excess of temporarily-restricted amounts are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2017 or 2016.

The Society's overall investment objective for its endowment is the preservation of the "real" value of the portfolio after expenses, inflation and withdrawals combined with long-term growth through capital appreciation in order to support the Society in perpetuity. As a result, 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 approximately 5% (net of related fees) plus the rate of inflation; however, actual returns in any given year may vary from that amount.

The Society has appropriated for current year operations less than 4% 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 2017 and 2016. The Society believes its policy of limiting spending to no more than 4% 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.

# SHEDD AQUARIUM SOCIETY

December 31, 2017 and 2016

## NOTES TO FINANCIAL STATEMENTS (continued)

### 4. INVESTMENTS

Investments as of December 31, 2017 and 2016 are summarized as follows:

	2017	
	Fair Value	Historical Cost
Global equities	\$ 109,398,819	\$ 82,618,115
Global fixed income	55,252,770	55,726,614
Absolute return	40,182,631	37,745,529
Real assets	31,349,054	30,293,956
Private capital	29,441,227	23,498,388
Cash and cash equivalents	2,239,241	2,239,241
	<u>267,863,742</u>	<u>232,121,843</u>
Accrued interest and dividends	1,966	1,966
	<u>\$ 267,865,708</u>	<u>\$ 232,123,809</u>

  

	2016	
	Fair Value	Historical Cost
Global equities	\$ 100,263,731	\$ 94,793,791
Global fixed income	46,314,836	47,354,995
Absolute return	35,513,621	36,245,529
Real assets	26,757,564	28,345,847
Private capital	24,148,591	20,514,393
Cash and cash equivalents	1,987,879	1,987,187
	<u>234,986,222</u>	<u>229,241,742</u>
Accrued interest and dividends	16,331	16,331
	<u>\$ 235,002,553</u>	<u>\$ 229,258,073</u>

Investments of the Society are managed by an external management firm, which is overseen by the Society's Board of Trustees. The Society diversifies its investments both by asset class and within asset classes.

## SHEDD AQUARIUM SOCIETY

December 31, 2017 and 2016

### NOTES TO FINANCIAL STATEMENTS (continued)

#### 4. INVESTMENTS (continued)

Global equities include domestic and international equities, including emerging-market investments, which are invested in either publicly traded equities listed on national exchanges or in limited partnerships or commingled funds.

Global fixed income includes US treasuries, agency securities, corporate bonds, loans and notes as well as sovereign debt from other nations.

Absolute return includes hedge funds and other absolute return-oriented investments that are not necessarily hedged. The underlying investments may be publicly traded securities; however the funds have restrictions that make the investments less liquid.

Real assets investments include global energy, natural resources such as oil and gas as well as real estate. Real assets may be publicly traded or illiquid private investments. As of December 31, 2017 and 2016, unfunded commitments to this asset class totaled \$7,165,854 and \$9,311,596 respectively.

Private capital includes investments in private equity and venture capital and distressed investment funds in limited partnerships. As of December 31, 2017 and 2016, unfunded commitments to this asset class totaled \$19,793,364 and \$23,495,744 respectively.

The investment portfolio is sufficiently liquid to meet the Society's needs. As of December 31, 2017, 7.6% of the fair value of the investments was available for withdrawal in less than five days; 18.6% was available for withdrawal in under three months; and 77.3% was available for withdrawal in one year or less.

At December 31, 2017 and 2016, the Society had invested \$215.5 million and \$185.3 million, respectively, through the Agility Comprehensive Solutions Fund LP (the Fund). The Fund has an unlimited life and is organized as a "master fund" in a "master/feeder" structure. The Fund investments are broadly diversified by asset class and geography. Withdrawals from the Fund require 90 days' written notice. The Society's investments through the Fund as of December 31, 2017 and 2016 are valued at fair value using the net asset value (NAV) per share as an expedient and were included in the following asset classes:



**SHEDD AQUARIUM SOCIETY**

December 31, 2017 and 2016

**NOTES TO FINANCIAL STATEMENTS (continued)****4. INVESTMENTS (continued)**

	2017	
	Fair Value	Historical Cost
Global equities	\$ 108,942,062	\$ 82,222,944
Fixed Income	12,290,967	12,577,633
Absolute return	40,182,631	37,745,529
Real assets	31,142,540	29,037,413
Private capital	22,711,492	18,893,034
Cash and cash equivalents	224,516	224,516
	<u>\$ 215,494,208</u>	<u>\$ 180,701,069</u>
	2016	
	Fair Value	Historical Cost
Global equities	\$ 99,918,145	\$ 94,471,968
Fixed Income	6,341,944	6,335,145
Absolute return	35,513,621	36,245,529
Real assets	26,541,815	27,106,058
Private capital	16,741,286	15,365,245
Cash and cash equivalents	225,433	225,433
	<u>\$ 185,282,244</u>	<u>\$ 179,749,378</u>

Accounting standards require that certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value. The fair value hierarchy is broken down into three levels based on the transparency of inputs, with Level 1 being given the highest priority in the hierarchy and Level 3 the lowest priority. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. Inputs to the various levels of the hierarchy are as follows:

# SHEDD AQUARIUM SOCIETY

December 31, 2017 and 2016

## NOTES TO FINANCIAL STATEMENTS (continued)

### 4. INVESTMENTS (continued)

**Level 1** – Observable inputs, that is, 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. These securities include investments that are traded less frequently but for which quoted prices are available and investments that are presented at fair value on the basis of other securities that are valued based on observable inputs.

**Level 3** – Unobservable inputs. These assets or liabilities have little to no pricing observability as of the report date. Such securities are measured using management's best estimate of fair value, where the inputs to the determination of fair value are not observable and require significant management judgment or estimation.

Investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

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 Society's policy is to recognize transfers in and out of Level 1, 2, and 3 fair value classifications as of the beginning of the reporting period. There were no transfers during 2017 or 2016.

The following tables present information about the Society's assets and liabilities measured at fair value on a recurring basis at December 31, 2017 and 2016, and the valuation techniques used by the Society to determine those fair values.

	2017				
	Fair Value	Level 1	Level 2	Level 3	NAV
Global equities	\$ 109,398,819	\$ 456,757	\$ -	\$ -	\$ 108,942,062
Global fixed income	55,252,770	34,740,039	2,575,625		17,937,106
Absolute return	40,182,631				40,182,631
Real assets	31,349,054				31,349,054
Private capital	29,441,227				29,441,227
Cash and cash equivalents	2,239,241	2,014,725			224,516
Accrued interest and dividends	1,966	1,966			
Beneficial interest in a perpetual trust	1,424,087			1,424,087	
	<u>\$ 269,289,795</u>	<u>\$ 37,213,487</u>	<u>\$ 2,575,625</u>	<u>\$ 1,424,087</u>	<u>\$ 228,076,596</u>

**SHEDD AQUARIUM SOCIETY**

**December 31, 2017 and 2016**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**4. INVESTMENTS (continued)**

	2016				NAV
	Fair Value	Level 1	Level 2	Level 3	
Global equities	\$ 100,263,731	\$ 345,586	\$ -	\$ -	\$ 99,918,145
Global fixed income	46,314,836	33,606,736	2,536,529		10,171,571
Absolute return	35,513,621				35,513,621
Real assets	26,757,564				26,757,564
Private capital	24,148,591				24,148,591
Cash and cash equivalents	1,987,879	1,762,446			225,433
Accrued interest and dividends	16,331	16,331			
Beneficial interest in a perpetual trust	1,294,771			1,294,771	
	<u>\$ 236,297,324</u>	<u>\$ 35,731,099</u>	<u>\$ 2,536,529</u>	<u>\$ 1,294,771</u>	<u>\$ 196,734,925</u>

The Society's investments included in Level 1 are all marketable securities; their fair values were determined by readily available quoted market prices. 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, 2017 and 2016, there are no outstanding commitments and the investments are redeemable within 90 days.

The Society's beneficial interest in a perpetual trust is included in Level 3. Fair value is based on the percentage of the trust designated to the Society applied to the total fair value of the trust, which is based on quoted market prices of the underlying assets when available. Changes in the fair value of the underlying assets, as determined by the trustees that hold and manage these assets, are recognized in the statement of activities and change in net assets in the period in which they occur.

The following tables summarize the change in value of the Society's Level 3 investment:

	2017	2016
Beginning balance	\$ 1,294,771	\$ 1,264,182
Distributions	(51,642)	(50,474)
Net market value change	180,958	81,063
Ending balance	<u>\$ 1,424,087</u>	<u>\$ 1,294,771</u>

# SHEDD AQUARIUM SOCIETY

December 31, 2017 and 2016

## NOTES TO FINANCIAL STATEMENTS (continued)

### 5. PLEDGES RECEIVABLE

Various donors have made unconditional pledges of support to the Society. Pledges as of December 31, 2017, are expected to be collected as follows:

	<u>Total</u>
2018	\$ 357,600
2019-2024	<u>1,757,000</u>
	2,114,600
Less discounts, at rates of 1.53 – 2.20%	<u>107,589</u>
	<u><u>\$ 2,007,011</u></u>

### 6. BOND PAYABLE

Bond payable outstanding as of December 31, 2017 and 2016 was:

	<u>2017</u>	<u>2016</u>
Bond payable	\$ 19,995,000	\$ 21,505,000
Debt issuance costs, net of amortization	<u>(102,239)</u>	<u>(130,042)</u>
	<u><u>\$ 19,892,761</u></u>	<u><u>\$ 21,374,958</u></u>

In July 2015, the Illinois Finance Authority (IFA) issued a tax-exempt bond in the amount of \$22,945,000 (the Series 2015 Bond) through a private placement. The proceeds were loaned to the Society for the purpose of redeeming its Series 2005 Bonds, which had been issued by the IFA in 2005, carried interest rates of 4.0% to 5.25% and had maturities and mandatory redemptions through July 1, 2027. The Series 2015 Bond carries a fixed interest rate of 2.42%. Expenses incurred in connection with the Series 2015 Bond issue were deferred and are being amortized on a straight-line basis over the period the bond is to be outstanding.

## SHEDD AQUARIUM SOCIETY

December 31, 2017 and 2016

### NOTES TO FINANCIAL STATEMENTS (continued)

#### 6. BOND PAYABLE (continued)

Principal payments are as follows for the Series 2015 bond as of December 31, 2017:

Year	Amount
2018	\$ 1,590,000
2019	1,665,000
2020	1,750,000
2021	1,835,000
2022	1,925,000
2023 – 2027	11,230,000

Under the terms of the Series 2015 Bond agreement, the Society has agreed to maintain liquidity above a minimum level and debt below a designated amount.

Total interest cost incurred and paid in 2017 and 2016 was \$531,138 and \$577,495, respectively.

#### 7. 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 2017 and 2016, respectively, were \$896,071 and \$973,919.

Employees retiring on or after attaining the age at which they may retire with full Social Security benefits 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 2017 and 2016, retirees paid \$47,894 and \$47,671, 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 \$51,194 and \$45,870 in 2017 and 2016, 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, 2017 and 2016

**NOTES TO FINANCIAL STATEMENTS (continued)****7. EMPLOYEE AND RETIREE BENEFITS (continued)**

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

	<u>2017</u>	<u>2016</u>
Accumulated post-retirement benefit obligation		
Retirees	\$ 577,000	\$ 483,000
Active employees eligible to retire	385,000	205,000
Active employees not eligible to retire	<u>3,027,000</u>	<u>2,618,000</u>
Accrued post-retirement benefit cost	<u>\$ 3,989,000</u>	<u>\$ 3,306,000</u>

Net periodic post-retirement benefit cost included the following components for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Service costs - benefits earned during the year	\$ 179,000	\$ 201,000
Interest cost on accumulated post-retirement benefit obligation	<u>135,000</u>	<u>149,000</u>
Net periodic post-retirement benefit obligation	<u>\$ 314,000</u>	<u>\$ 350,000</u>

The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation at December 31, 2017 and 2016 ranged from 6.50% for 2018 to 5.0% for 2024 and beyond, and 6.75% for 2017 to 5.0% for 2024 and beyond, respectively. For 2017 and 2016, the discount rates used in determining annual expenses were 4.13% and 4.32%, respectively, and 3.60% and 4.13%, respectively, for determining disclosure liabilities.

If the health care cost trend rate assumptions were increased by 1%, the accumulated post-retirement benefit obligation as of December 31, 2017 would be increased by \$493,000. The effect of this change on the service and interest cost components of the net periodic post-retirement benefit expense for 2017 would be an increase of \$52,000. If the health care cost trend rate assumptions were decreased by 1%, the accumulated post-retirement benefit obligation as of December 31, 2017 would be decreased by \$402,000. The effect of this change on the service and interest cost components of the net periodic post-retirement benefit expense for 2017 would be a decrease of \$42,000.

## **SHEDD AQUARIUM SOCIETY**

**December 31, 2017 and 2016**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

#### **7. EMPLOYEE AND RETIREE BENEFITS (continued)**

The Society has established a Section 457(b) retirement income deferral plan for a select group of management or highly compensated employees that allows 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 \$18,000 in 2017 and 2016 to the plan. Under the terms of the 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 plan 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 the plan is limited to the balance of assets in the plan. As of December 31, 2017 and 2016, total assets of the plan were \$457,625 and \$365,152, respectively.

#### **8. OPERATING EXPENSES BY NATURAL CATEGORY**

Operating expenses incurred by the Society during the years ended December 31, 2017 and 2016 according to their natural categories follow.

**SHEDD AQUARIUM SOCIETY**

**December 31, 2017 and 2016**

**NOTES TO FINANCIAL STATEMENTS**

**8. EXPENSES BY NATURAL CATEGORY (continued)**

	<b>2017</b>								
	<b>Conservation Education</b>	<b>Animal Care</b>	<b>Conservation Science and Research</b>	<b>Guest Services</b>	<b>Ancillary Services</b>	<b>Development and Membership</b>	<b>Fundraising Events</b>	<b>Management and General</b>	<b>Total</b>
Salaries	\$ 6,191,959	\$ 5,533,743	\$ 1,241,863	\$ 3,036,105	\$ 85,078	\$ 1,884,052	\$ 14,297	\$ 3,951,323	\$ 21,938,420
Employee benefits	1,659,972	1,449,171	328,171	597,535	24,579	534,929	3,642	1,090,815	5,688,814
Professional development	124,894	70,308	59,082	11,166	-	21,291	29	135,548	422,318
Professional fees	5,385	-	4,935	-	-	-	-	503,686	514,006
Outsourcing fees	1,599,268	386,267	21,685	149,609	211,329	13,832	6,017	65,387	2,453,394
Outside contractors	31,426	5,000	40,000	-	-	1,723	19,534	4,300	101,983
Contractual services	1,769,642	444,406	112,540	865,716	47,823	475,881	51,498	1,198,138	4,965,644
Printing and production	47,765	497	2,225	205	-	71,562	424	57	122,735
Advertising	1,846,910	-	-	7,486	-	-	-	-	1,854,396
Supplies	819,485	1,195,205	129,421	79,002	13,371	95,399	215,006	251,614	2,798,503
Telephone and communications	60,375	51,708	7,773	16,111	10,484	19,809	167	116,880	283,307
Postage and shipping	8,477	13,474	2,192	1,259	530	111,066	4,468	12,855	154,321
Travel and meetings	424,961	91,128	183,160	31,942	3,580	124,431	284,255	135,043	1,278,500
Repairs and maintenance	906,366	223,770	11,300	78,457	80,970	5,710	-	84,604	1,391,177
Occupancy	1,025,358	382,220	21,739	136,015	165,166	12,430	-	69,839	1,812,767
Insurance	38,905	615	40	-	-	-	-	394,969	434,529
Grants and contributions	4,554	-	280,015	-	-	-	-	-	284,569
Miscellaneous	658,435	7,321	4,493	25,330	1,340	702	43,635	89,808	831,064
Interest expense	525,665	-	-	-	-	5,473	-	-	531,138
Depreciation	6,855,797	2,624,395	148,888	936,916	1,137,719	85,543	-	434,683	12,223,941
Total operating expenses	<u>\$ 24,605,599</u>	<u>\$ 12,479,228</u>	<u>\$ 2,599,522</u>	<u>\$ 5,972,854</u>	<u>\$ 1,781,969</u>	<u>\$ 3,463,833</u>	<u>\$ 642,972</u>	<u>\$ 8,539,549</u>	<u>\$ 60,085,526</u>

	<b>2016</b>								
	<b>Conservation Education</b>	<b>Animal Care</b>	<b>Conservation Science and Research</b>	<b>Guest Services</b>	<b>Ancillary Services</b>	<b>Development and Membership</b>	<b>Fundraising Events</b>	<b>Management and General</b>	<b>Total</b>
Salaries	\$ 6,030,304	\$ 5,388,025	\$ 1,009,634	\$ 2,623,555	\$ 78,407	\$ 1,998,241	\$ 8,070	\$ 4,420,564	\$ 21,556,800
Employee benefits	1,696,798	1,468,561	284,778	568,147	22,777	668,986	1,978	1,352,637	6,064,662
Professional development	123,281	93,051	35,807	12,358	-	16,929	-	114,149	395,575
Professional fees	-	2,926	1,550	-	-	-	-	334,780	339,256
Outsourcing fees	1,485,549	354,638	19,955	141,152	200,766	13,318	7,382	59,132	2,281,892
Outside contractors	31,153	2,500	13,333	-	-	3,622	3,958	1,474	56,040
Contractual services	1,363,640	401,953	80,309	914,588	42,192	429,448	139,243	1,291,600	4,662,973
Printing and production	50,111	713	105,628	2,134	-	62,997	-	1,188	222,771
Advertising	1,776,495	-	-	-	-	1,500	-	-	1,777,995
Supplies	738,530	971,234	59,796	116,761	2,628	101,919	65,600	183,247	2,239,715
Telephone and communications	58,150	37,381	7,946	13,513	10,064	31,879	83	49,733	208,749
Postage and shipping	6,730	58,118	4,537	937	399	106,406	6,680	14,104	197,911
Travel and meetings	405,259	92,731	152,032	25,851	3,331	124,622	300,139	154,871	1,258,836
Repairs and maintenance	1,021,840	245,466	10,189	87,542	76,318	6,839	-	145,490	1,593,684
Occupancy	1,018,174	385,268	21,799	137,173	166,573	12,524	-	69,353	1,810,864
Insurance	41,749	998	557	-	-	-	-	429,671	472,975
Grants and contributions	4,310	6,588	197,834	-	-	-	-	-	208,732
Miscellaneous	801,068	7,699	15,941	16,408	7,711	24,683	82,055	161,954	1,117,519
Interest expense	571,842	-	-	-	-	5,653	-	-	577,495
Depreciation	6,593,405	2,523,951	143,189	901,058	1,094,175	82,269	-	418,046	11,756,093
Total operating expenses	<u>\$ 23,818,388</u>	<u>\$ 12,041,801</u>	<u>\$ 2,164,814</u>	<u>\$ 5,561,177</u>	<u>\$ 1,705,341</u>	<u>\$ 3,691,835</u>	<u>\$ 615,188</u>	<u>\$ 9,201,993</u>	<u>\$ 58,800,537</u>