

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

FINANCIAL STATEMENTS

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

FINANCIAL STATEMENTS

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Independent Auditor's Report

Board of Trustees
Shedd Aquarium Society
Chicago, Illinois

We have audited the accompanying statements of financial position of **Shedd Aquarium Society** as of December 31, 2011 and 2010, 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 **Shedd Aquarium Society** as of December 31, 2011 and 2010, 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 5, 2012

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

STATEMENTS OF FINANCIAL POSITION

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 16,534,776	\$ 18,270,119
Accounts receivable	1,559,566	1,656,930
Pledges receivable	18,190,927	17,339,639
Prepaid expenses and other assets	1,700,478	1,945,615
Bond issuance costs, net of accumulated amortization (2011-\$519,951; 2010-\$460,150)	420,075	479,876
Building, improvements and equipment:		
Building	104,223,519	104,223,519
Building improvements and renovation	120,781,873	118,384,296
Machinery and equipment	57,419,342	56,302,545
Construction in progress	1,654,143	1,753,322
	<u>284,078,877</u>	<u>280,663,682</u>
Less accumulated depreciation	<u>(129,896,812)</u>	<u>(117,668,154)</u>
	154,182,065	162,995,528
Investments	154,101,656	155,931,923
Beneficial interest in a perpetual trust	<u>1,070,265</u>	<u>1,155,075</u>
	<u>\$ 347,759,808</u>	<u>\$ 359,774,705</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 6,034,849	\$ 4,916,607
Deferred revenue	768,863	803,944
Bonds and loan payable	28,946,638	52,230,533
Accrued post-retirement benefit expense	5,847,921	4,994,086
	<u>41,598,271</u>	<u>62,945,170</u>
Net assets:		
Unrestricted	238,940,124	231,243,726
Temporarily restricted	51,792,781	50,191,190
Permanently restricted	15,428,632	15,394,619
	<u>306,161,537</u>	<u>296,829,535</u>
	<u>\$ 347,759,808</u>	<u>\$ 359,774,705</u>

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

SHEDD AQUARIUM SOCIETY

For the Years Ended December 31, 2011 and 2010

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES								
Admissions	\$ 31,288,249			\$ 31,288,249	\$ 28,646,974			\$ 28,646,974
Tax appropriations	4,500,777			4,500,777	4,211,458			4,211,458
Ancillary services	4,545,175			4,545,175	3,863,064			3,863,064
Memberships and contributions	12,141,236	\$ 6,300,958	\$ 118,823	18,561,017	14,937,201	\$ 6,095,553	\$ 3,819,468	24,852,222
Educational programs and trips	1,363,176			1,363,176	1,296,602			1,296,602
Fundraising events	852,323			852,323	744,023			744,023
Net assets released from restrictions:								
Satisfaction of time restrictions	5,492,667	(5,492,667)		-	4,112,656	(4,112,656)		-
Miscellaneous	113,974			113,974	113,991			113,991
Total operating revenues	60,297,577	808,291	118,823	61,224,691	57,925,969	1,982,897	3,819,468	63,728,334
OPERATING EXPENSES								
Exhibits	13,465,564			13,465,564	13,203,383			13,203,383
Animal husbandry	11,676,083			11,676,083	10,351,245			10,351,245
Education, outreach and interpretation	8,064,451			8,064,451	8,288,361			8,288,361
Guest services	5,873,480			5,873,480	5,844,468			5,844,468
Ancillary services	1,986,900			1,986,900	1,795,206			1,795,206
Development and membership	2,774,389			2,774,389	2,455,834			2,455,834
Fundraising events	554,438			554,438	481,852			481,852
Management and general	9,938,383			9,938,383	9,544,294			9,544,294
Total operating expenses	54,333,688	-	-	54,333,688	51,964,643	-	-	51,964,643
Net revenue from operations	5,963,889	808,291	118,823	6,891,003	5,961,326	1,982,897	3,819,468	11,763,691
NON-OPERATING ITEMS								
Interest and dividends	2,881,148	1,398,970		4,280,118	2,316,802	1,118,633		3,435,435
Net realized gains (losses) on sales of investments	6,124,860	2,948,889	(84,810)	8,988,939	1,020,950	468,892	102,966	1,592,808
Change in net unrealized (losses) gains on investments	(7,291,414)	(3,385,131)		(10,676,545)	7,823,549	3,748,199		11,571,748
Appropriations and transfers	169,428	(169,428)		-	543,824	(543,824)		-
Costs and expenses related to the Oceanarium Renovation Project	(151,513)			(151,513)	(673,485)			(673,485)
Total non-operating items	1,732,509	793,300	(84,810)	2,440,999	11,031,640	4,791,900	102,966	15,926,506
CHANGE IN NET ASSETS	7,696,398	1,601,591	34,013	9,332,002	16,992,966	6,774,797	3,922,434	27,690,197
NET ASSETS AT BEGINNING OF THE YEAR	231,243,726	50,191,190	15,394,619	296,829,535	214,250,760	43,416,393	11,472,185	269,139,338
NET ASSETS AT END OF THE YEAR	\$ 238,940,124	\$ 51,792,781	\$ 15,428,632	\$ 306,161,537	\$ 231,243,726	\$ 50,191,190	\$ 15,394,619	\$ 296,829,535

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

SHEDD AQUARIUM SOCIETY

For the Years Ended December 31, 2011 and 2010

STATEMENTS OF CASH FLOWS

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 9,332,002	\$ 27,690,197
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,511,528	12,345,669
Decrease in accounts receivable	97,364	299,406
Decrease (Increase) in beneficial interest in a perpetual trust	84,810	(102,966)
Increase in pledges receivable	(851,288)	(3,199,817)
Increase in accounts payable and accrued expenses	720,571	411,208
Decrease in deferred revenue	(35,081)	(89,968)
Permanently restricted contributions	(118,823)	(2,404,078)
Interest and dividends on investments	(4,280,118)	(3,435,435)
Net realized and unrealized losses (gains) on investments	1,687,606	(13,164,556)
Increase in prepaid expenses and other assets	(75,606)	(250,883)
Other	853,835	638,811
Net cash provided by operating activities	<u>19,926,800</u>	<u>18,737,588</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	66,701,348	90,998,265
Purchases of investments	(62,278,569)	(92,041,310)
Additions to building, improvements and equipment	(3,017,524)	(4,243,767)
Net cash provided (used) by investing activities	<u>1,405,255</u>	<u>(5,286,812)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bond principal	(1,165,000)	(1,120,000)
Repayment of loan payable	(22,021,221)	(2,978,779)
Permanently restricted contributions	118,823	2,404,078
Net cash used by financing activities	<u>(23,067,398)</u>	<u>(1,694,701)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,735,343)	11,756,075
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>18,270,119</u>	<u>6,514,044</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 16,534,776</u>	<u>\$ 18,270,119</u>
NONCASH INVESTING ACTIVITIES		
Accrued amounts for building, improvements and equipment	\$ 876,413	\$ 478,742

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

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

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 2011 and 2010 is reported net of related expenses of \$361,321 and \$437,920, respectively.

Effective January 1, 2010, the Society adopted new guidance that requires entities to report significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers, as well as disclosing the reasons for any transfers in or out of Level 3. Additionally, the guidance requires the Society to clarify existing disclosure requirements about the level of disaggregation and inputs and valuation techniques. The new guidance also requires the reconciliation of changes in Level 3 fair value measurements to present purchases, sales and settlements separately on a gross basis rather than as a net amount, effective for 2011. The adoption of this guidance did not have an impact on the Society's financial statements, other than expanded disclosures.

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

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 initially recorded at fair value. They are subsequently valued 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	15-40 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

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 value when received. In-kind support of \$301,851 and \$303,373 is reflected in the accompanying financial statements for the years ended December 31, 2011 and 2010, 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

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December 31, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

made, such contribution is reported as unrestricted support in the Statement of Activities and Changes in Net Assets. At December 31, 2011 and 2010, 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 forever kept invested and only the income be used for operations of the Society. At December 31, 2011 and 2010, permanently restricted net assets were available to fund general operations (\$2,810,973 and \$2,895,783, respectively), educational programs and conservation activities (\$9,902,269 and \$9,883,446, respectively), conservation activities (\$2,515,390 and \$2,415,390, respectively) and special projects (\$200,000).

Use of Estimates

The preparation of financial statements in conformity with 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, 2011 and 2010 and is no longer subject to examination by federal, state or local tax authorities for periods before 2008.

Subsequent Events

Management has evaluated subsequent events through **April 5**, 2012, the date of the issuance of the Society's financial statements, and April 11, 2011 with respect to the 2010 comparative statements. No material subsequent events have occurred since December 31, 2011 that required recognition or disclosure in these financial statements with the exception of the subsequent event disclosed in Note 8.

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.

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS (continued)

3. ENDOWMENT (continued)

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.

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.

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.

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS (continued)

3. ENDOWMENT (continued)

Information regarding the endowment net assets as of December 31, 2011 and 2010 and changes in endowment net assets for the years then ended follows.

	Endowment Net Assets as of December 31, 2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds		\$ 34,448,442	\$ 14,358,367	\$ 48,806,809
Board-designated endowment funds	\$ 103,987,818			103,987,818
	<u>\$ 103,987,818</u>	<u>\$ 34,448,442</u>	<u>\$ 14,358,367</u>	<u>\$152,794,627</u>

	Changes in Endowment Net Assets Year Ended December 31, 2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of the year	\$ 88,435,046	\$ 33,655,142	\$ 14,239,544	\$ 136,329,732
Investment return:				
Investment income	3,000,328	1,398,970		4,399,298
Net change in fair value	<u>(1,282,183)</u>	<u>(436,242)</u>		<u>(1,718,425)</u>
Total investment return	1,718,145	962,728		2,680,873
Contributions			118,823	118,823
Transfers	<u>13,834,627</u>	<u>(169,428)</u>		<u>13,665,199</u>
Endowment net assets, end of the year	<u>\$103,987,818</u>	<u>\$ 34,448,442</u>	<u>\$ 14,358,367</u>	<u>\$152,794,627</u>

SHEDD AQUARIUM SOCIETY

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NOTES TO FINANCIAL STATEMENTS (continued)

3. ENDOWMENT (continued)

	Endowment Net Assets as of December 31, 2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds		\$ 33,655,142	\$ 14,239,544	\$ 47,894,686
Board-designated endowment funds	\$ 88,435,046			88,435,046
	<u>\$ 88,435,046</u>	<u>\$ 33,655,142</u>	<u>\$ 14,239,544</u>	<u>\$136,329,732</u>

	Changes in Endowment Net Assets Year Ended December 31, 2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of the year	\$ 73,793,670	\$ 28,863,242	\$ 10,420,076	\$ 113,076,988
Investment return:				
Investment income	2,287,071	1,118,633		3,405,704
Net change in fair value	<u>8,755,676</u>	<u>4,217,091</u>		<u>12,972,767</u>
Total investment return	11,042,747	5,335,724		16,378,471
Contributions			3,819,468	3,819,468
Appropriation of endowment assets for expenditure	(418,440)	(522,600)		(941,040)
Transfers	<u>4,017,069</u>	<u>(21,224)</u>		<u>3,995,845</u>
Endowment net assets, end of the year	<u>\$ 88,435,046</u>	<u>\$ 33,655,142</u>	<u>\$ 14,239,544</u>	<u>\$136,329,732</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. There were no such deficiencies as of December 31, 2011 or 2010.

SHEDD AQUARIUM SOCIETY

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NOTES TO FINANCIAL STATEMENTS (continued)

3. ENDOWMENT (continued)

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 5% 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 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 2011 and 2010. 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.

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.

SHEDD AQUARIUM SOCIETY

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NOTES TO FINANCIAL STATEMENTS (continued)

4. FAIR VALUE MEASUREMENTS (continued)

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 tables set 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, 2011 and 2010 (in 000s).

	As of December 31, 2011			
	Total	Level 1	Level 2	Level 3
Domestic large-cap equity securities	\$ 9,679	\$ 9,679		
Domestic large-growth equity securities	9,404	9,404		
Domestic large-quality equity securities	17,948	17,948		
Domestic equity securities - other	217	217		
International large-cap equity securities	20,498	10,645	\$9,853	
International emerging-market equity securities	3,567	3,567		
Emerging markets equity securities	6,338	6,338		
Fixed-income securities	66,191	59,404	6,787	
U.S. Government, U.S. Government-guaranteed and agency securities	7,738	7,738		
Short-term investment funds	300	300		
Private equity limited partnerships	5,141			\$5,141
Real assets	7,009	5,806		1,203
Beneficial interest in a perpetual trust	1,070			1,070
	<u>\$155,100</u>	<u>\$131,046</u>	<u>\$16,640</u>	<u>\$7,414</u>

SHEDD AQUARIUM SOCIETY

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NOTES TO FINANCIAL STATEMENTS (continued)

4. FAIR VALUE MEASUREMENTS (continued)

	As of December 31, 2010			
	Total	Level 1	Level 2	Level 3
Domestic large-cap equity securities	\$ 6,011	\$ 6,011		
Domestic large-growth equity securities	10,026	10,026		
Domestic large-quality equity securities	14,734	14,734		
Domestic equity securities - other	212	212		
International large-cap equity securities	21,700	11,348	\$10,352	
International emerging-market equity securities	11,695	11,695		
Asia ex-Japan equity securities	9,737		9,737	
Fixed-income securities	38,243	31,920	6,323	
U.S. Government, U.S. Government- guaranteed and agency securities	14,852	14,852		
Short-term investment funds	17,462	17,462		
Private equity limited partnerships	3,267			\$3,267
Real assets	7,434	6,370		1,064
Beneficial interest in a perpetual trust	1,155			1,155
	<u>\$156,528</u>	<u>\$124,630</u>	<u>\$26,412</u>	<u>\$5,486</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. The fair value of these investments is based on their net asset value as these funds do not have a readily determined fair value as determined by GAAP.

Investments included in Level 3 are comprised of interests in several limited partnerships and a beneficial interest in a perpetual trust. 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.

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS (continued)

4. FAIR VALUE MEASUREMENTS (continued)

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

	<u>2011</u>
Balance as of December 31, 2010	\$ 5,486
Purchases	1,760
Distributions	(615)
Net earnings	351
Total unrealized fair value change	<u>432</u>
Balance as of December 31, 2011	<u><u>\$7,414</u></u>
	<u>2010</u>
Balance as of December 31, 2009	\$ 3,344
Purchases, issuances and settlements, net	1,464
Net earnings	329
Total unrealized fair value change	<u>349</u>
Balance as of December 31, 2010	<u><u>\$ 5,486</u></u>

Level 3 unrealized gains (losses) included in the changes in net assets for the years ended December 31, 2011 and 2010 are reported in change in net unrealized (losses) gains 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 maintains investments in various 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, 2011 and 2010 follows:

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS (continued)

4. FAIR VALUE MEASUREMENTS (continued)

Secondary funds (fair value: \$1,455,631 and \$743,729, respectively): invest solely in secondary interests of other private equity funds; outstanding commitments at December 31, 2011 and 2010 totaled \$2.9 million and \$1.3 million, respectively.

Distressed fund-of-funds (fair value: \$820,178 and \$497,797, respectively): invests primarily in funds engaging in distressed debt and equity investments; outstanding commitments at December 31, 2011 and 2010 totaled \$1.2 million and \$1.6 million, respectively.

Diversified private equity funds-of-funds (fair value: \$2,665,622 and \$2,025,738, respectively): invest primarily in funds engaging in special situations; outstanding commitments at December 31, 2011 and 2010 totaled \$2.8 million and \$3.5 million, respectively.

Diversified private equity funds-of-funds (fair value: \$200,000 and \$0, respectively): invest primarily in venture capital, leveraged buyout, growth equity and special situation funds; outstanding commitments at December 31, 2011 totaled \$1.8 million.

Oil and gas (fair value: \$1,202,523 and \$1,064,017, respectively): diversified portfolio of privately negotiated equity and equity-like investments in independent oil and gas companies; outstanding commitments at December 31, 2011 and 2010 totaled \$.4 million and \$.8 million, respectively.

5. INVESTMENTS

Investments as of December 31, 2011 and 2010 are summarized as follows:

	2011	
	Fair Value	Historical Cost
Domestic equity securities	\$ 37,248,440	\$ 34,451,487
International equity securities	30,402,946	34,071,230
Fixed-income securities	66,190,738	67,074,669
U.S. Government, U.S. Government-guaranteed and agency securities	7,737,898	6,735,097
Short-term investment funds	300,082	300,082
Private equity limited partnerships	5,141,431	4,523,092
Real assets	7,008,201	7,535,485
	154,029,736	154,691,142
Accrued interest and dividends	71,920	71,920
	<u>\$154,101,656</u>	<u>\$154,763,062</u>

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS (continued)

5. INVESTMENTS (continued)

	2010	
	Fair Value	Historical Cost
Domestic equity securities	\$ 30,983,230	\$ 28,750,837
International equity securities	43,132,349	37,379,070
Fixed-income securities	38,243,232	37,291,110
U.S. Government, U.S. Government-guaranteed and agency securities	14,851,951	13,960,213
Short-term investment funds	17,461,912	17,461,912
Private equity limited partnerships	3,267,264	3,119,331
Real assets	7,433,457	7,395,782
	<u>155,373,395</u>	<u>145,358,255</u>
Accrued interest and dividends	<u>558,528</u>	<u>558,528</u>
	<u>\$155,931,923</u>	<u>\$145,916,783</u>

As of December 31, 2011, fixed-income securities included an investment in PIMCO Low Duration Fund (a publicly-traded mutual fund) with a fair value of \$17,961,897 and cost of \$18,341,907, and domestic equities included an investment in Vanguard Dividend Appreciation Fund (a publicly-traded equity fund) with a fair value and cost of \$17,947,776 and \$17,293,441, respectively,

As of December 31, 2010, fixed-income securities included an investment in PIMCO Total Return Fund (a publicly-traded mutual fund) with a fair value of \$19,323,498 and cost of \$18,529,900, and short-term investments included an investment in Northern Trust Institutional Government Portfolio Short-Term Investment Fund (a publicly-traded money-market fund) with a fair value, which equaled cost, of \$17,461,912.

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.

During 2010, a realized loss of \$417,017 was recorded on the liquidation of the Society's investment in a hedge fund-of-funds.

6. PLEDGES RECEIVABLE

Various donors have made unconditional pledges of support to the Society. Pledges as of December 31, 2011, are expected to be collected as follows:

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS (continued)**6. PLEDGES RECEIVABLE (continued)**

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
2012		\$ 6,236,112	\$ 6,236,112
2013 – 2016	<u>\$1,470,000</u>	<u>10,793,992</u>	<u>12,263,992</u>
	1,470,000	17,030,104	18,500,104
Less discounts at rates of 0.75-2.8%	54,610	254,567	309,177
	<u>\$1,415,390</u>	<u>\$16,775,537</u>	<u>\$18,190,927</u>

7. BONDS AND LOAN PAYABLE

Bonds and loan payable outstanding as of December 31, 2011 and 2010 were:

	<u>2011</u>	<u>2010</u>
Bonds payable	\$ 28,080,000	\$ 29,245,000
Premium	<u>866,638</u>	<u>964,312</u>
	28,946,638	30,209,312
Loan payable	<u>-</u>	<u>22,021,221</u>
	<u>\$ 28,946,638</u>	<u>\$ 52,230,533</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 4.00% 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, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS (continued)

7. BONDS AND LOAN PAYABLE

Maturities and mandatory redemptions are as follows for the Series 2005 bonds as of December 31, 2011:

<u>Year</u>	<u>Amount</u>	<u>Stated Interest Rate</u>	<u>Effective Interest Rate</u>
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	1,370,000	5.00%	4.03%
2016	1,440,000	5.00%	4.03%
2017 – 2027	21,505,000	4.50 - 5.25%	4.11 - 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, 2011 was \$29,680,615.

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 (the Loan), which was to expire on January 31, 2014 and carried an interest rate of LIBOR plus 75 basis points on the amount drawn. As of December 31, 2010, the Loan bore a weighted-average interest rate of 1.01%. Under the terms of the Loan agreement, principal payments in the amount of \$2,500,000 were due annually on December 31, 2010 through 2013. The remaining principal of \$15,000,000 was due December 31, 2014. The Society repaid \$22,021,221 and \$2,978,779 of the principal balance in December 2011 and 2010, respectively. As of December 31, 2011, the Loan was paid in full.

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

The Society was in compliance with all its debt covenants during 2011 and 2010.

Total interest cost incurred and paid in 2011 and 2010 was \$1,427,423 and \$1,685,064, respectively.

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS (continued)

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 2011 and 2010, respectively, were \$697,167 and \$738,597.

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 2011 and 2010, retirees paid \$26,045 and \$25,183 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 \$24,231 and \$32,276 in 2011 and 2010, respectively. The Society does not anticipate that the level of benefit payments will be significant to the Society over the next ten years.

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

	<u>2011</u>	<u>2010</u>
Accumulated postretirement benefit obligation		
Retirees	\$ 234,000	\$ 222,000
Active employees eligible to retire	339,000	177,000
Active employees not eligible to retire	<u>2,000,000</u>	<u>1,625,000</u>
Accrued postretirement benefit cost	<u>\$ 2,573,000</u>	<u>\$ 2,024,000</u>

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS (continued)

8. EMPLOYEE AND RETIREE BENEFITS (continued)

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

	<u>2011</u>	<u>2010</u>
Service costs - benefits earned during the year	\$ 154,000	\$ 134,000
Interest cost on accumulated postretirement benefit obligation	<u>110,000</u>	<u>100,000</u>
Net periodic postretirement benefit obligation	<u>\$ 264,000</u>	<u>\$ 234,000</u>

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation at December 31, 2011 and 2010 ranged from 7.5% for 2012 to 5.0% for 2022 and beyond, and 7.75% for 2011 to 5.0% for 2022 and beyond, respectively. For 2011 and 2010, the discount rates used in determining annual expenses were 5.49% and 5.97%, respectively, and 4.32% and 5.49%, 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, 2011 would be increased by \$193,000. The effect of this change on the service and interest cost components of the net periodic postretirement benefit expense for 2011 would be an increase of \$31,000. If the health care cost trend rate assumptions were decreased by 1%, the accumulated postretirement benefit obligation as of December 31, 2011 would be decreased by \$173,000. The effect of this change on the service and interest cost components of the net periodic postretirement benefit expense for 2011 would be a decrease of \$27,000.

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 \$182,288 in 2011 and \$212,916 in 2010 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, 2011 and 2010, total assets of the plans were \$2,722,420 and \$2,444,568, respectively. Subsequent to December 31, 2011, benefits totaling \$2,480,854 became fully vested and were distributed from the plan.

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS (continued)

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, 2011 and 2010, the Society expensed \$151,513 and \$673,485, 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 fundraising and interest expense.

10. RECLASSIFICATIONS

For comparability, the 2010 financial statements reflect reclassifications where appropriate to conform to the financial statement presentation used in 2011.

11. OPERATING EXPENSES BY NATURAL CATEGORY

Operating expenses incurred by the Society during the years ended December 31, 2011 and 2010 according to their natural categories follow.

SHEDD AQUARIUM SOCIETY

December 31, 2011 and 2010

NOTES TO FINANCIAL STATEMENTS

11. EXPENSES BY NATURAL CATEGORY (continued)

2011									
	Exhibits	Animal Husbandry	Education, Outreach, Interpretation and Conservation	Guest Services	Ancillary Services	Development and Membership	Fundraising Events	Management and General	Total
Salaries	\$ 2,756,883	\$ 4,541,082	\$ 2,826,179	\$ 2,112,537	\$ 158,933	\$ 1,622,072	\$ 6,252	\$ 3,756,288	\$ 17,780,226
Employee benefits	821,544	1,290,573	812,976	441,689	49,545	606,422	1,649	1,214,988	5,239,386
Professional development	9,713	28,178	50,584	5,074	43	5,701	-	72,083	171,376
Professional fees	4,950	5,230	8,000	-	-	102	-	120,708	138,990
Outsourcing fees	465,347	210,440	661,839	75,127	118,085	8,246	3,796	36,018	1,578,898
Outside contractors	-	-	27,703	-	-	640	2,694	1,551	32,588
Contractual services	32,189	357,386	329,379	1,834,018	177,086	255,255	92,559	707,852	3,785,724
Printing and production	350	-	401,109	2,026	-	-	-	122,044	525,529
Advertising	-	-	-	48,701	-	-	-	1,730,553	1,779,254
Supplies	438,110	1,751,640	417,395	173,131	26,779	12,757	54,884	326,712	3,201,408
Telephone and communications	20,092	22,099	32,907	11,329	10,775	15,190	204	38,772	151,368
Postage and shipping	1,160	66,987	10,202	12,369	146	4,485	4,916	99,674	199,939
Travel and meetings	5,346	194,435	341,371	5,315	11,657	83,475	285,077	168,577	1,095,253
Repairs and maintenance	621,661	190,359	183,959	67,668	128,242	31,942	-	196,416	1,420,247
Occupancy	863,663	384,509	175,405	136,797	166,116	13,254	-	66,082	1,805,826
Insurance	-	559	48,069	-	-	-	-	448,322	496,950
Grants and contributions	-	1,500	120,500	-	-	-	-	-	122,000
Miscellaneous	251,074	5,448	414,951	10,332	1,226	26,730	102,407	396,850	1,209,018
Interest expense	1,367,346	-	-	-	-	2,534	-	-	1,369,880
Depreciation	5,806,136	2,625,658	1,201,923	937,367	1,138,267	85,584	-	434,893	12,229,828
Total operating expenses	<u>\$ 13,465,564</u>	<u>\$ 11,676,083</u>	<u>\$ 8,064,451</u>	<u>\$ 5,873,480</u>	<u>\$ 1,986,900</u>	<u>\$ 2,774,389</u>	<u>\$ 554,438</u>	<u>\$ 9,938,383</u>	<u>\$ 54,333,688</u>

2010									
	Exhibits	Animal Husbandry	Education, Outreach, Interpretation and Conservation	Guest Services	Ancillary Services	Development and Membership	Fundraising Events	Management and General	Total
Salaries	\$ 2,622,338	\$ 4,476,548	\$ 2,991,887	\$ 2,034,471	\$ 161,035	\$ 1,506,655	\$ 8,956	\$ 3,603,761	\$ 17,405,651
Employee benefits	752,974	1,241,287	819,039	430,160	47,366	522,386	2,325	1,210,081	5,025,618
Professional development	7,267	15,457	57,124	6,187	261	6,878	-	46,036	139,210
Professional fees	-	-	-	-	-	-	-	123,219	123,219
Outsourcing fees	452,272	204,626	739,538	73,141	106,590	8,926	1,489	35,290	1,621,872
Outside contractors	-	-	74,144	-	-	-	1,917	1,350	77,411
Contractual services	42,813	176,923	312,574	1,907,813	8,082	115,392	113,059	735,035	3,411,691
Printing and production	-	-	464,056	8,019	-	-	112	155,689	627,876
Advertising	-	-	-	-	-	-	-	1,618,036	1,618,036
Supplies	467,797	794,278	310,988	161,303	14,756	20,992	64,470	388,462	2,223,046
Telephone and communications	17,705	20,819	28,679	11,084	8,806	13,451	146	35,931	136,621
Postage and shipping	986	51,731	10,467	9,767	274	7,234	4,859	131,573	216,891
Travel and meetings	7,032	95,727	378,553	23,247	2,696	94,230	276,400	129,540	1,007,425
Repairs and maintenance	586,164	167,157	169,825	71,985	101,596	29,861	97	171,727	1,298,412
Occupancy	1,123,341	503,414	229,850	179,257	217,676	17,084	-	91,680	2,362,302
Insurance	-	22,000	49,979	-	-	-	-	462,818	534,797
Grants and contributions	-	1,000	81,200	-	-	-	-	-	82,200
Miscellaneous	(18,451)	(7,838)	385,721	4,070	4,077	25,501	8,022	175,392	576,494
Interest expense	1,418,028	-	-	-	-	2,883	-	-	1,420,911
Depreciation	5,723,117	2,588,116	1,184,737	923,964	1,121,991	84,361	-	428,674	12,054,960
Total operating expenses	<u>\$ 13,203,383</u>	<u>\$ 10,351,245</u>	<u>\$ 8,288,361</u>	<u>\$ 5,844,468</u>	<u>\$ 1,795,206</u>	<u>\$ 2,455,834</u>	<u>\$ 481,852</u>	<u>\$ 9,544,294</u>	<u>\$ 51,964,643</u>