

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

FINANCIAL STATEMENTS

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

FINANCIAL STATEMENTS

Report of Independent Auditors

Statements of Financial Position

Page 1

Statements of Activities and Changes in Net Assets

Page 2

Statements of Cash Flows

Page 3

Notes to Financial Statements

Page 4

Independent Auditor's Report

To the Board of Trustees
Shedd Aquarium Society

We have audited the accompanying financial statements of Shedd Aquarium Society, which comprise the statement of financial position as of December 31, 2016 and 2015, 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 audit 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, 2016 and 2015, 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 25, 2017

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

STATEMENTS OF FINANCIAL POSITION

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 21,464,352	\$ 16,819,129
Accounts receivable	1,544,545	1,324,947
Pledges receivable	1,308,866	3,006,617
Prepaid expenses and other assets	932,704	2,133,547
Building, improvements and equipment:		
Building	104,197,518	104,223,519
Building improvements and renovations	128,406,793	127,244,764
Machinery and equipment	56,799,148	53,587,271
Construction in progress	4,280,527	900,105
	<u>293,683,986</u>	<u>285,955,659</u>
Less accumulated depreciation	<u>(163,767,583)</u>	<u>(152,516,617)</u>
	129,916,403	133,439,042
Investments	235,002,553	224,038,800
Beneficial interest in a perpetual trust	<u>1,294,771</u>	<u>1,264,182</u>
	<u>\$ 391,464,194</u>	<u>\$ 382,026,264</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 6,710,614	\$ 5,290,211
Deferred revenue	794,674	915,491
Bond payable, net of issuance costs	21,374,958	22,778,154
Accrued post-retirement benefits	3,865,336	3,995,930
	<u>32,745,582</u>	<u>32,979,786</u>
Net assets:		
Unrestricted	295,669,702	285,731,373
Temporarily restricted	48,798,162	49,099,946
Permanently restricted	14,250,748	14,215,159
	<u>358,718,612</u>	<u>349,046,478</u>
	<u>\$ 391,464,194</u>	<u>\$ 382,026,264</u>

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

SHEDD AQUARIUM SOCIETY

For the Years Ended December 31, 2016 and 2015

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES								
Admissions	\$ 34,505,605			\$ 34,505,605	\$ 34,676,820			\$ 34,676,820
Tax appropriations	4,077,152			4,077,152	4,099,450			4,099,450
Ancillary services	4,539,049			4,539,049	4,461,750			4,461,750
Memberships and contributions	10,239,545	673,940	5,000	10,918,485	11,403,744	3,811,966	8,000	15,223,710
Educational programs and trips	1,266,153			1,266,153	1,396,455			1,396,455
Fundraising events	1,245,082			1,245,082	1,204,038			1,204,038
Net assets released from restrictions:								
Satisfaction of restrictions	3,021,223	(3,021,223)		-	1,362,756	(1,362,756)		-
Miscellaneous	71,442			71,442	151,064			151,064
Total operating revenues	58,965,251	(2,347,283)	5,000	56,622,968	58,756,077	2,449,210	8,000	61,213,287
OPERATING EXPENSES								
Conservation education	23,818,388			23,818,388	23,802,434			23,802,434
Animal care	12,041,801			12,041,801	11,352,706			11,352,706
Conservation science and research	2,164,814			2,164,814	2,278,926			2,278,926
Guest services	5,561,177			5,561,177	5,439,639			5,439,639
Ancillary services	1,705,341			1,705,341	1,714,131			1,714,131
Development and membership	3,691,835			3,691,835	3,386,299			3,386,299
Fundraising events	615,188			615,188	643,650			643,650
Management and general	9,201,993			9,201,993	8,839,525			8,839,525
Total operating expenses	58,800,537	-	-	58,800,537	57,457,310	-	-	57,457,310
Net (loss) revenue from operations	164,714	(2,347,283)	5,000	(2,177,569)	1,298,767	2,449,210	8,000	3,755,977
NON-OPERATING ITEMS								
Interest and dividends	223,516	60,003		283,519	434,758	206,751		641,509
Net realized (losses) gains on sales of investments	(1,079,247)	(447,308)	30,589	(1,495,966)	(444,697)	(206,007)	(68,394)	(719,098)
Unrealized gains (losses) on investments	8,727,234	3,336,132		12,063,366	(4,654,883)	(1,814,872)		(6,469,755)
Appropriations and transfers	403,328	(403,328)		-	440,508	(440,508)		-
Actuarial gain related to retirees medical plan	466,000			466,000	253,000			253,000
Support for capital projects	777,276			777,276	201,381			201,381
Net assets released from restrictions:								
Satisfaction of restrictions	500,000	(500,000)		-	-			-
Gain on extinguishment of debt	-			-	260,433			260,433
Write off of certain assets	(244,492)			(244,492)	-			-
Total non-operating items	9,773,615	2,045,499	30,589	11,849,703	(3,509,500)	(2,254,636)	(68,394)	(5,832,530)
CHANGE IN NET ASSETS	9,938,329	(301,784)	35,589	9,672,134	(2,210,733)	194,574	(60,394)	(2,076,553)
NET ASSETS AT BEGINNING OF THE YEAR	285,731,373	49,099,946	14,215,159	349,046,478	287,942,106	48,905,372	14,275,553	351,123,031
NET ASSETS AT END OF THE YEAR	\$ 295,669,702	\$ 48,798,162	\$ 14,250,748	\$ 358,718,612	\$ 285,731,373	\$ 49,099,946	\$ 14,215,159	\$ 349,046,478

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

SHEDD AQUARIUM SOCIETY

For the Years Ended December 31, 2016 and 2015

STATEMENTS OF CASH FLOWS

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 9,672,134	\$ (2,076,553)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,300,663	12,468,976
Gain on extinguishment of debt	-	(260,433)
Write off of certain assets	244,492	-
Support for capital projects	(777,276)	-
Permanently restricted contributions	(5,000)	(8,000)
Interest and dividends on investments	(283,519)	(641,509)
Net realized and unrealized (gains) losses on investments	(10,567,400)	7,188,853
(Increase) decrease in beneficial interest in a perpetual trust	(30,589)	68,394
Decrease in accrued post-retirement benefit expense	(130,594)	(104,759)
Decrease in accounts receivable	(219,598)	754,428
Decrease (increase) in pledges receivable	1,697,751	(1,424,277)
Decrease (increase) in prepaid expenses and other assets	693,077	(1,608,822)
Decrease in accounts payable and accrued expenses	(498,974)	(506,670)
(Decrease) increase in deferred revenue	(120,817)	168,441
Net cash provided by operating activities	<u>11,974,350</u>	<u>14,018,069</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	60,637,760	119,724,751
Purchases of investments	(60,750,594)	(140,126,584)
Additions to building, improvements and equipment	(6,558,569)	(6,656,731)
Net cash used by investing activities	<u>(6,671,403)</u>	<u>(27,058,565)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bond principal	(1,440,000)	(24,315,000)
Issuance of bond payable	-	22,945,000
Bond issuance costs	-	(188,201)
Support for capital projects	777,276	-
Permanently restricted contributions	5,000	8,000
Net cash used by financing activities	<u>(657,724)</u>	<u>(1,550,201)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,645,223	(14,590,697)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>16,819,129</u>	<u>31,409,826</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 21,464,352</u>	<u>\$ 16,819,129</u>
NONCASH INVESTING ACTIVITIES		
Accrued amounts for building, improvements and equipment	\$ 2,729,402	\$ 810,025

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

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

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 2016 and 2015 are reported net of related expenses of \$198,964 and \$676,964, respectively.

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

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, 2016 and 2015

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 \$378,113 and \$337,754 is reflected in the accompanying financial statements for the years ended December 31, 2016 and 2015, 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; funds received in support of specific capital projects; gain on extinguishment of debt; 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, 2016 and 2015, 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, 2016 and 2015,

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

permanently restricted net assets were available to fund general operations (\$3,035,479 and \$3,004,890, respectively), educational programs and conservation activities (\$9,902,269), conservation activities (\$1,113,000 and \$1,108,000, respectively) 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, 2018. 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 contracts in place to determine the full impact of the new standard and the potential effects on the financial statements and disclosures.

Financial Instruments

The Society's financial instruments consist of cash, accounts and pledges receivable, investments, accounts payable and accrued expense, and bonds payable.

The carrying amount of bonds payable approximates their fair value as of December 31, 2016 and 2015, based on the rates currently in effect for bonds issued by similar issuers, with similar terms and average maturities. For the remaining financial instruments other than pledges receivable, the carrying value is a reasonable estimate of the fair value because of the short-term nature of the financial instruments. The fair values of the Society's pledges receivable are estimated based on the current interest rates and the period of collectability. These financial instruments would have been classified as a Level 2 input if they had been included in the fair value measurements table in Note 4.

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 evaluating the impact this standard will have on the financial statements.

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.

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, 2016 and 2015.

Subsequent Events

Management has evaluated subsequent events through April 25, 2017, the date of the issuance of the Society's financial statements. No other material subsequent event has occurred since December 31, 2016 that required recognition or disclosure in these financial statements.

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS (continued)

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.

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

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

Information regarding the endowment net assets as of December 31, 2016 and 2015 and changes in endowment net assets for the years then ended follows.

	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	155,118,255			155,118,255
	<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, 2016 and 2015

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	7,500,000	2,888,824		10,388,824
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	326,863	(326,863)		-
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>
	Endowment Net Assets as of December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 43,721,229	\$ 12,950,977	\$ 56,672,206
Board-designated funds	147,064,205			147,064,205
	<u>\$ 147,064,205</u>	<u>\$ 43,721,229</u>	<u>\$ 12,950,977</u>	<u>\$ 203,736,411</u>

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS (continued)

3. ENDOWMENT (continued)

	Changes in Endowment Net Assets Year Ended December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of the year	\$ 150,816,070	\$ 45,975,865	\$ 12,942,977	\$ 209,734,912
Investment return:				
Investment income	588,701	206,751		795,452
Net change in fair value	<u>(5,138,074)</u>	<u>(2,020,879)</u>		<u>(7,158,953)</u>
Total investment return	(4,549,373)	(1,814,128)		(6,363,501)
Contributions	357,000		8,000	365,000
Appropriation of endowment assets for expenditure	<u>440,508</u>	<u>(440,508)</u>	<u>-</u>	<u>-</u>
Endowment net assets end of the year	<u>\$ 147,064,205</u>	<u>\$ 43,721,229</u>	<u>\$ 12,950,977</u>	<u>\$ 203,736,411</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, 2016 or 2015.

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 2016 and 2015. 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, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS (continued)

4. INVESTMENTS

Investments as of December 31, 2016 and 2015 are summarized as follows:

	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	<u>16,331</u>	<u>16,331</u>
	<u>\$ 235,002,553</u>	<u>\$ 229,258,073</u>
	2015	
	Fair Value	Historical Cost
Global equities	\$ 64,043,265	\$ 68,858,377
Global fixed income	38,803,906	40,671,762
Absolute return	40,926,669	42,296,733
Real assets	20,059,223	27,181,551
Private capital	23,482,193	16,727,475
Cash and cash equivalents	985,610	967,981
	<u>188,300,866</u>	<u>196,703,879</u>
Cash	35,727,725	35,727,725
Accrued interest and dividends	<u>10,209</u>	<u>10,209</u>
	<u>\$ 224,038,800</u>	<u>\$ 232,441,813</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, 2016 and 2015

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, 2016 and 2015, unfunded commitments to this asset class totaled \$9,311,596 and \$10,532,666, respectively.

Private capital includes investments in private equity and venture capital and distressed investment funds in limited partnerships. As of December 31, 2016 and 2015, unfunded commitments to this asset class totaled \$23,495,744 and \$27,984,678, respectively.

The investment portfolio is sufficiently liquid to meet the Society's needs. As of December 31, 2016, 8.2% 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 73.4% was available for withdrawal in one year or less.

At December 31, 2016 and 2015, the Society had invested \$185.3 million and \$116.6 million, respectively, through the Agility Comprehensive Solutions Offshore Fund LP and the Agility Comprehensive Solutions Fund LP (collectively, the Funds). These Funds have unlimited lives and each is organized as a "master fund" in a "master/feeder" structure. The Funds investments are broadly diversified by asset class and geography. Withdrawals from the Funds require 90 days' written notice. The Society's investments through the Funds as of December 31, 2016 and 2015 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, 2016 and 2015

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

	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>
	2015	
	Fair Value	Historical Cost
Global equities	\$ 40,355,296	\$ 41,952,371
Absolute return	40,926,669	42,296,733
Real assets	19,684,713	25,968,339
Private capital	15,464,565	11,474,056
Cash and cash equivalents	198,573	198,573
	<u>\$ 116,629,816</u>	<u>\$ 121,890,072</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, 2016 and 2015

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 2016 or 2015.

The following tables present information about the Society's assets and liabilities measured at fair value on a recurring basis at December 31, 2016 and 2015, and the valuation techniques used by the Society to determine those fair values.

	2016				
	Fair Value	Level 1	Level 2	Level 3	NAV
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>

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS (continued)

4. INVESTMENTS (continued)

	2015				NAV
	Fair Value	Level 1	Level 2	Level 3	
Global equities	\$ 64,043,265	\$ 305,441	\$ -	\$ -	\$ 63,737,824
Global fixed income	38,803,906	35,111,135			3,692,771
Absolute return	40,926,669				40,926,669
Real assets	20,059,223				20,059,223
Private capital	23,482,193				23,482,193
Cash and cash equivalents	985,610	787,037			198,573
Accrued interest and dividends	10,209	10,209			
Beneficial interest in a perpetual trust	1,264,182			1,264,182	
	<u>\$ 189,575,257</u>	<u>\$ 36,213,822</u>	<u>\$ -</u>	<u>\$ 1,264,182</u>	<u>\$ 152,097,253</u>

The above table does not include \$35,727,725 of cash in the portfolio at December 31, 2015.

The Society's investments included in Level 1 are all marketable securities; their fair values were determined by readily available quoted market prices. As of December 31, 2016 and 2015, the Society had no Level 2 investments.

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:

	2016	2015
Beginning balance	\$ 1,264,182	\$ 1,332,576
Distributions	(50,474)	(49,891)
Net market value change	81,063	(18,503)
Ending balance	<u>\$ 1,294,771</u>	<u>\$ 1,264,182</u>

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS (continued)

5. PLEDGES RECEIVABLE

Various donors have made unconditional pledges of support to the Society. Pledges as of December 31, 2016, are expected to be collected as follows:

	<u>Total</u>
2017	\$ 973,316
2018-2024	<u>364,000</u>
	1,337,316
Less discounts, at rates of 1.53 – 2.14%	<u>28,450</u>
	<u><u>\$ 1,308,866</u></u>

6. BOND PAYABLE

Bond payable outstanding as of December 31, 2016 and 2015 was:

	<u>2016</u>	<u>2015</u>
Bond payable	\$ 21,505,000	\$ 22,945,000
Debt issuance costs, net of amortization	<u>(130,042)</u>	<u>(166,846)</u>
	<u><u>\$ 21,374,958</u></u>	<u><u>\$ 22,778,154</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. As a result of the Series 2005 Bond redemption, a gain on extinguishment of debt of \$260,433 was recognized in 2015.

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS (continued)

6. BOND PAYABLE (continued)

Principal payments are as follows for the Series 2015 bond as of December 31, 2016:

Year	Amount
2017	\$ 1,510,000
2018	1,590,000
2019	1,665,000
2020	1,750,000
2021	1,835,000
2022 – 2027	13,155,000

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 2016 and 2015 was \$577,495 and \$1,015,207, 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 2016 and 2015, respectively, were \$973,919 and \$851,791.

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 2016 and 2015, retirees paid \$47,671 and \$49,943, 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 \$45,870 and \$47,738 in 2016 and 2015, 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, 2016 and 2015

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>2016</u>	<u>2015</u>
Accumulated post-retirement benefit obligation		
Retirees	\$ 483,000	\$ 488,000
Active employees eligible to retire	205,000	226,000
Active employees not eligible to retire	<u>2,618,000</u>	<u>2,782,000</u>
Accrued post-retirement benefit cost	<u>\$ 3,306,000</u>	<u>\$ 3,496,000</u>

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

	<u>2016</u>	<u>2015</u>
Service costs - benefits earned during the year	\$ 201,000	\$ 212,000
Interest cost on accumulated post-retirement benefit obligation	149,000	136,000
Amortization of net loss	<u>-</u>	<u>3,000</u>
Net periodic post-retirement benefit obligation	<u>\$ 350,000</u>	<u>\$ 351,000</u>

The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation at December 31, 2016 and 2015 ranged from 6.75% for 2017 to 5.0% for 2024 and beyond, and 7.0% for 2016 to 5.0% for 2024 and beyond, respectively. For 2016 and 2015, the discount rates used in determining annual expenses were 4.32% and 3.95%, respectively, and 4.13% and 4.32%, 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, 2016 would be increased by \$399,000. The effect of this change on the service and interest cost components of the net periodic post-retirement benefit expense for 2016 would be an increase of \$53,000. If the health care cost trend rate assumptions were decreased by 1%, the accumulated post-retirement benefit obligation as of December 31, 2016 would be decreased by \$326,000. The effect of this change on the service and interest cost components of the net periodic post-retirement benefit expense for 2016 would be a decrease of \$43,000.

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

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 2016 and \$0 in 2015 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, 2016 and 2015, total assets of the plan were \$365,152 and \$307,005, respectively.

8. OPERATING EXPENSES BY NATURAL CATEGORY

Operating expenses incurred by the Society during the years ended December 31, 2016 and 2015 according to their natural categories follow.

SHEDD AQUARIUM SOCIETY

December 31, 2016 and 2015

NOTES TO FINANCIAL STATEMENTS

9. EXPENSES BY NATURAL CATEGORY (continued)

	2016								
	Conservation Education	Animal Care	Conservation Science and Research	Guest Services	Ancillary Services	Development and Membership	Fundraising Events	Management and General	Total
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>

	2015								
	Conservation Education	Animal Care	Conservation Science and Research	Guest Services	Ancillary Services	Development and Membership	Fundraising Events	Management and General	Total
Salaries	\$ 5,852,731	\$ 4,995,251	\$ 1,099,649	\$ 2,517,176	\$ 79,572	\$ 1,801,749	\$ 6,150	\$ 4,135,583	\$ 20,487,861
Employee benefits	1,687,622	1,389,269	326,646	618,974	26,280	628,701	1,275	1,314,176	5,992,943
Professional development	77,851	54,913	57,295	13,052	-	13,366	-	82,735	299,212
Professional fees	-	-	-	-	-	-	-	351,406	351,406
Outsourcing fees	1,361,838	315,608	18,224	152,097	175,905	12,640	8,468	54,935	2,099,715
Outside contractors	22,949	-	2,400	-	-	-	2,049	1,399	28,797
Contractual services	1,224,307	335,544	194,130	837,545	42,101	357,115	143,636	1,245,475	4,379,853
Printing and production	63,451	3,050	44,845	-	-	55,964	-	5,119	172,429
Advertising	1,782,509	3,000	-	-	-	31,500	-	-	1,817,009
Supplies	766,001	930,473	93,627	129,762	5,774	74,260	91,755	186,516	2,278,168
Telephone and communications	59,953	22,338	7,734	7,688	8,380	19,469	511	99,610	225,683
Postage and shipping	10,896	61,523	2,426	1,014	248	127,387	6,423	16,211	226,128
Travel and meetings	348,701	63,706	204,070	16,654	2,853	130,586	271,621	149,624	1,187,815
Repairs and maintenance	985,298	216,758	10,834	80,823	92,933	6,011	-	135,454	1,528,111
Occupancy	1,114,455	421,736	23,862	150,161	182,343	13,710	-	75,548	1,981,815
Insurance	44,130	599	210	-	-	-	-	422,402	467,341
Grants and contributions	-	-	18,000	-	-	-	-	50,500	68,500
Miscellaneous	782,849	9,588	31,478	11,708	1,226	25,572	111,762	93,891	1,068,074
Interest expense	1,009,383	-	-	-	-	5,824	-	-	1,015,207
Depreciation	6,607,510	2,529,350	143,496	902,985	1,096,516	82,445	-	418,941	11,781,243
Total operating expenses	<u>\$ 23,802,434</u>	<u>\$ 11,352,706</u>	<u>\$ 2,278,926</u>	<u>\$ 5,439,639</u>	<u>\$ 1,714,131</u>	<u>\$ 3,386,299</u>	<u>\$ 643,650</u>	<u>\$ 8,839,525</u>	<u>\$ 57,457,310</u>