

**SHEDD AQUARIUM SOCIETY**

**December 31, 2013 and 2012**

**FINANCIAL STATEMENTS**

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**December 31, 2013 and 2012**

**FINANCIAL STATEMENTS**

Report of Independent Auditors

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## Independent Auditor's Report

To the Board of Trustees  
Shedd Aquarium Society

We have audited the accompanying financial statements of Shedd Aquarium Society, which comprise the statement of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shedd Aquarium Society as of December 31, 2013 and 2012 and the results of its operations 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 2, 2014

**SHEDD AQUARIUM SOCIETY**

**December 31, 2013 and 2012**

**STATEMENTS OF FINANCIAL POSITION**

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 26,704,879	\$ 24,861,375
Accounts receivable	1,479,510	2,494,303
Pledges receivable	7,290,500	11,187,408
Prepaid expenses and other assets	1,607,568	1,096,263
Bond issuance costs, net of accumulated amortization (2013-\$624,105; 2012-\$574,407)	315,921	365,619
Building, improvements and equipment:		
Building	104,223,519	104,223,519
Building improvements and renovation	125,327,641	122,742,863
Machinery and equipment	64,827,860	62,481,091
Construction in progress	758,687	168,767
	<u>295,137,707</u>	<u>289,616,240</u>
Less accumulated depreciation	<u>(153,998,945)</u>	<u>(141,854,270)</u>
	141,138,762	147,761,970
Investments	205,636,756	175,881,733
Beneficial interest in a perpetual trust	<u>1,290,921</u>	<u>1,143,852</u>
	<u>\$ 385,464,817</u>	<u>\$ 364,792,523</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses	\$ 6,021,179	\$ 4,866,240
Deferred revenue	1,009,721	913,139
Bonds payable	26,285,959	27,642,270
Accrued post-retirement benefit expense	<u>3,306,191</u>	<u>3,398,268</u>
	36,623,050	36,819,917
Net assets:		
Unrestricted	281,281,581	261,682,538
Temporarily restricted	53,326,288	50,766,332
Permanently restricted	14,233,898	15,523,736
	<u>348,841,767</u>	<u>327,972,606</u>
	<u>\$ 385,464,817</u>	<u>\$ 364,792,523</u>

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

**SHEDD AQUARIUM SOCIETY**

For the Years Ended December 31, 2013 and 2012

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

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES</b>								
Admissions	\$ 33,813,432			\$ 33,813,432	\$ 33,338,087			\$ 33,338,087
Tax appropriations	4,020,607			4,020,607	4,010,781			4,010,781
Ancillary services	4,519,464			4,519,464	4,456,331			4,456,331
Memberships and contributions	9,149,375	\$ 2,404,367		11,553,742	9,757,879	\$ 1,166,328	\$ 21,517	10,945,724
Educational programs and trips	1,210,960			1,210,960	1,292,382			1,292,382
Fundraising events	1,196,353			1,196,353	903,540			903,540
Net assets released from restrictions:								
Satisfaction of time restrictions	6,175,618	(6,175,618)		-	7,915,201	(7,915,201)		-
Miscellaneous	268,616			268,616	136,127			136,127
Total operating revenues	60,354,425	(3,771,251)	-	56,583,174	61,810,328	(6,748,873)	21,517	55,082,972
<b>OPERATING EXPENSES</b>								
Conservation education	22,258,573			22,258,573	21,830,496			21,830,496
Animal care	11,467,395			11,467,395	11,288,049			11,288,049
Conservation science and research	2,084,421			2,084,421	1,608,350			1,608,350
Guest services	4,896,429			4,896,429	4,762,621			4,762,621
Ancillary services	1,772,281			1,772,281	1,680,615			1,680,615
Development and membership	2,918,147			2,918,147	2,895,681			2,895,681
Fundraising events	636,205			636,205	554,847			554,847
Management and general	10,203,254			10,203,254	9,249,552			9,249,552
Total operating expenses	56,236,705	-	-	56,236,705	53,870,211	-	-	53,870,211
Net revenue from operations	4,117,720	(3,771,251)	-	346,469	7,940,117	(6,748,873)	21,517	1,212,761
<b>NON-OPERATING ITEMS</b>								
Interest and dividends	2,937,198	1,259,773		4,196,971	2,774,987	1,294,889		4,069,876
Net realized gains on sales of investments	2,071,439	809,435	147,069	3,027,943	3,861,556	1,656,677	73,587	5,591,820
Change in net unrealized gains on investments	8,916,428	3,567,850		12,484,278	6,541,553	2,946,809		9,488,362
Appropriations and transfers	742,758	694,149	(1,436,907)	-	175,951	(175,951)		-
Actuarial gain related to retirees medical plan	429,000			429,000	-			-
Support for capital projects	384,500			384,500	1,448,250			1,448,250
Total non-operating items	15,481,323	6,331,207	(1,289,838)	20,522,692	14,802,297	5,722,424	73,587	20,598,308
<b>CHANGE IN NET ASSETS</b>	19,599,043	2,559,956	(1,289,838)	20,869,161	22,742,414	(1,026,449)	95,104	21,811,069
<b>NET ASSETS AT BEGINNING OF THE YEAR</b>	261,682,538	50,766,332	15,523,736	327,972,606	238,940,124	51,792,781	15,428,632	306,161,537
<b>NET ASSETS AT END OF THE YEAR</b>	<u>\$ 281,281,581</u>	<u>\$ 53,326,288</u>	<u>\$ 14,233,898</u>	<u>\$ 348,841,767</u>	<u>\$ 261,682,538</u>	<u>\$ 50,766,332</u>	<u>\$ 15,523,736</u>	<u>\$ 327,972,606</u>

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

**SHEDD AQUARIUM SOCIETY**

For the Years Ended December 31, 2013 and 2012

**STATEMENTS OF CASH FLOWS**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 20,869,161	\$ 21,811,069
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,953,998	12,428,916
Permanently restricted contributions	-	(21,517)
Interest and dividends on investments	(4,196,971)	(4,069,876)
Net realized and unrealized gains on investments	(15,512,221)	(15,080,182)
Increase in beneficial interest in a perpetual trust	(147,069)	(73,587)
Decrease in accrued post-retirement benefit expense	(92,077)	(2,449,653)
Decrease (increase) in accounts receivable	1,014,793	(934,737)
Decrease in pledges receivable	3,896,908	7,003,519
(Increase) decrease in prepaid expenses and other assets	(1,372,241)	87,845
Increase (decrease) in accounts payable and accrued expenses	1,705,839	(347,358)
Increase in deferred revenue	96,582	144,276
Net cash provided by operating activities	<u>19,216,702</u>	<u>18,498,715</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	12,510,407	51,367,296
Purchases of investments	(22,556,238)	(53,997,315)
Additions to building, improvements and equipment	(6,072,367)	(6,358,614)
Net cash used by investing activities	<u>(16,118,198)</u>	<u>(8,988,633)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of bond principal	(1,255,000)	(1,205,000)
Permanently restricted contributions	-	21,517
Net cash used by financing activities	<u>(1,255,000)</u>	<u>(1,183,483)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,843,504	8,326,599
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>24,861,375</u>	<u>16,534,776</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 26,704,879</u>	<u>\$ 24,861,375</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Accrued amounts for building, improvements and equipment	\$ 550,900	\$ 55,162

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

# **SHEDD AQUARIUM SOCIETY**

**December 31, 2013 and 2012**

## **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, see Note 4. Net realized gains on the sales of investments and the change in unrealized gains 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 2013 and 2012 are reported net of related expenses of \$366,782 and \$565,998, respectively.

#### **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.

# **SHEDD AQUARIUM SOCIETY**

**December 31, 2013 and 2012**

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

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

#### **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 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 \$623,108 and \$290,565 is reflected in the accompanying financial statements for the years ended December 31, 2013 and 2012, 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.



# **SHEDD AQUARIUM SOCIETY**

**December 31, 2013 and 2012**

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

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

#### **Measure of Operations**

The Society considers all revenues and expenses to be related to operations except investment income (including interest, dividends, net realized gains on the sales of investments and changes in the net unrealized gains on investments); actuarial gain on retirees medical plan; and funds received in support of specific capital projects, 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, 2013 and 2012, 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, 2013 and 2012, permanently restricted net assets were available to fund general operations (\$3,031,629 and \$2,884,560, respectively), educational programs and conservation activities (\$9,902,269), conservation activities (\$1,100,000 and \$2,536,907, 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.

# **SHEDD AQUARIUM SOCIETY**

**December 31, 2013 and 2012**

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

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

#### **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 the bonds approximates its fair value as of December 31, 2013 and 2012, 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.

#### **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**

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, 2013 and 2012 and is no longer subject to examination by federal, state or local tax authorities for periods before 2010.

#### **Subsequent Events**

Management has evaluated subsequent events through April 2, 2014, the date of the issuance of the Society's financial statements. No other material subsequent event has occurred since December 31, 2013 that required recognition or disclosure in these financial statements.

### **3. ENDOWMENT**

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

# SHEDD AQUARIUM SOCIETY

December 31, 2013 and 2012

## NOTES TO FINANCIAL STATEMENTS (continued)

### 3. ENDOWMENT (continued)

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, 2013 and 2012 and changes in endowment net assets for the years then ended follows.

	Endowment Net Assets as of December 31, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 45,065,166	\$ 12,942,977	\$ 58,008,143
Board-designated endowment funds	\$147,243,449			147,243,449
	<u>\$ 147,243,449</u>	<u>\$ 45,065,166</u>	<u>\$ 12,942,977</u>	<u>\$205,251,592</u>

**SHEDD AQUARIUM SOCIETY**

**December 31, 2013 and 2012**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**3. ENDOWMENT (continued)**

	Changes in Endowment Net Assets Year Ended December 31, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of the year	\$122,457,385	\$ 40,170,866	\$ 14,379,884	\$ 177,008,135
Investment return:				
Investment income	3,142,322	1,259,773		4,402,095
Net change in fair value	<u>10,900,984</u>	<u>4,377,285</u>		<u>15,278,269</u>
Total investment return	14,043,306	5,637,058		19,680,364
Appropriation of endowment assets for expenditure	738,481	(738,481)		-
Transfers	<u>10,004,277</u>	<u>(4,277)</u>	<u>(1,436,907)</u>	<u>8,563,093</u>
Endowment net assets, end of the year	<u>\$147,243,449</u>	<u>\$ 45,065,166</u>	<u>\$ 12,942,977</u>	<u>\$205,251,592</u>

	Endowment Net Assets as of December 31, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds		\$ 40,170,866	\$ 14,379,884	\$ 54,550,750
Board-designated endowment funds	<u>\$122,457,385</u>			<u>122,457,385</u>
	<u>\$122,457,385</u>	<u>\$ 40,170,866</u>	<u>\$14,379,884</u>	<u>\$177,008,135</u>

# SHEDD AQUARIUM SOCIETY

December 31, 2013 and 2012

## NOTES TO FINANCIAL STATEMENTS (continued)

### 3. ENDOWMENT (continued)

	Changes in Endowment Net Assets Year Ended December 31, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of the year	\$103,987,818	\$ 34,448,442	\$ 14,358,367	\$ 152,794,627
Investment return:				
Investment income	2,954,503	1,294,889		4,249,392
Net change in fair value	<u>10,325,919</u>	<u>4,603,486</u>		<u>14,929,405</u>
Total investment return	13,280,422	5,898,375		19,178,797
Contributions			21,517	21,517
Appropriation of endowment assets for expenditure	232,035	(232,035)		-
Transfers	<u>4,957,110</u>	<u>56,084</u>		<u>5,013,194</u>
Endowment net assets, end of the year	<u>\$122,457,385</u>	<u>\$ 40,170,866</u>	<u>\$ 14,379,884</u>	<u>\$177,008,135</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, 2013 or 2012.

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.

## **SHEDD AQUARIUM SOCIETY**

**December 31, 2013 and 2012**

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

#### **3. ENDOWMENT (continued)**

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 2013 and 2012. 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**

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) 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.

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.

# SHEDD AQUARIUM SOCIETY

December 31, 2013 and 2012

## NOTES TO FINANCIAL STATEMENTS (continued)

### 4. FAIR VALUE MEASUREMENTS (continued)

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, 2013 and 2012 (in 000s).

	As of December 31, 2013			
	Total	Level 1	Level 2	Level 3
Domestic large-cap equity securities	\$ 30,327	\$ 30,327		
Domestic large-quality equity securities	27,458	27,458		
Domestic equity securities - other	339	339		
International large-cap equity securities	32,855	17,684	\$15,171	
International emerging-market equity securities	4,977	4,977		
Emerging markets equity securities	7,398	7,398		
Fixed-income securities	67,404	61,882	5,522	
U.S. Government, U.S. Government-guaranteed and agency securities	8,722	8,722		
Short-term investment funds	2,982	2,982		
Senior debt obligations	3,555			\$3,555
Private equity limited partnerships	6,906			6,906
Real assets funds	12,653	12,074		579
Beneficial interest in a perpetual trust	1,291			1,291
Accrued interest and dividends	61	61		
	<u>\$206,928</u>	<u>\$173,904</u>	<u>\$20,693</u>	<u>\$12,331</u>

	As of December 31, 2012			
	Total	Level 1	Level 2	Level 3
Domestic large-cap equity securities	\$ 17,375	\$ 17,375		
Domestic large-growth equity securities	5,036	5,036		
Domestic large-quality equity securities	20,746	20,746		
Domestic equity securities - other	275	275		
International large-cap equity securities	26,223	14,301	\$11,922	
International emerging-market equity securities	5,239	5,239		
Emerging markets equity securities	7,996	7,996		
Fixed-income securities	65,843	58,057	7,786	
U.S. Government, U.S. Government-guaranteed and agency securities	9,163	9,163		
Short-term investment funds	903	903		
Private equity limited partnerships	6,341			\$6,341
Real assets funds	10,639	10,097		542
Beneficial interest in a perpetual trust	1,144			1,144
Accrued interest and dividends	102	102		
	<u>\$177,025</u>	<u>\$149,290</u>	<u>\$19,708</u>	<u>\$8,027</u>

# SHEDD AQUARIUM SOCIETY

December 31, 2013 and 2012

## NOTES TO FINANCIAL STATEMENTS (continued)

### 4. FAIR VALUE MEASUREMENTS (continued)

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. As of December 31, 2013 and 2012, there are no outstanding commitments and the investments are redeemable within 90 days.

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.

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).

	Limited Partnerships	Real Assets	Beneficial Interest	Senior Debt Obl.	Total
Balance as of December 31, 2012	\$6,341	\$542	\$1,144	\$-	\$8,027
Purchases	799	73	-	3,500	4,372
Distributions	(853)	(116)	-	-	(969)
Net earnings	184	176	-	55	415
Total unrealized fair value change	435	(96)	147	-	486
Balance as of December 31, 2013	<u>\$6,906</u>	<u>\$579</u>	<u>\$1,291</u>	<u>\$3,555</u>	<u>\$12,331</u>
	Limited Partnerships	Real Assets	Beneficial Interest	Total	
Balance as of December 31, 2011	\$5,142	\$1,202	\$1,070	\$7,414	
Purchases	911	210	-	1,121	
Distributions	(480)	(576)	-	(1,056)	
Net earnings	516	96	-	612	
Total unrealized fair value change	252	(390)	74	(64)	
Balance as of December 31, 2012	<u>\$6,341</u>	<u>\$542</u>	<u>\$1,144</u>	<u>\$8,027</u>	



# **SHEDD AQUARIUM SOCIETY**

**December 31, 2013 and 2012**

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

### **4. FAIR VALUE MEASUREMENTS (continued)**

Level 3 unrealized gains (losses) included in the changes in net assets for the years ended December 31, 2013 and 2012 are reported in change in net unrealized 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, debt obligations 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, 2013 and 2012 follows:

Secondary funds (fair value: \$2,069,918 and \$2,081,051, respectively): invest solely in secondary interests of other private equity funds; outstanding commitments at December 31, 2013 and 2012 totaled \$2.1 million and \$2.5 million, respectively.

Distressed fund-of-funds (fair value: \$935,284 and \$845,423, respectively): invests primarily in funds engaging in distressed debt and equity investments; outstanding commitments at December 31, 2013 and 2012 totaled \$.8 million and \$1.0 million, respectively.

Diversified private equity funds-of-funds (fair value: \$3,364,849 and \$3,120,186, respectively): invest primarily in funds engaging in special situations; outstanding commitments at December 31, 2013 and 2012 totaled \$2 million and \$2.1 million, respectively.

Diversified private equity funds-of-funds (fair value: \$536,246 and \$294,389, respectively): invest primarily in venture capital, leveraged buyout, growth equity and special situation funds; outstanding commitments at December 31, 2013 and 2012 totaled \$1.4 million and \$1.7 million, respectively.

Oil and gas (fair value: \$579,439 and \$542,001, respectively): diversified portfolio of privately negotiated equity and equity-like investments in independent oil and gas companies; outstanding commitments at December 31, 2013 and 2012 totaled \$.05 million and \$.1 million, respectively.

Senior debt obligations (fair value: \$3,554,577 and \$0, respectively): diversified portfolio of senior debt, such as loans, notes, bonds and other securities and obligations having terms and security similar to those of senior bank loans; there were no outstanding commitments at December 31, 2013 and 2012.

# SHEDD AQUARIUM SOCIETY

December 31, 2013 and 2012

## NOTES TO FINANCIAL STATEMENTS (continued)

### 5. INVESTMENTS

Investments as of December 31, 2013 and 2012 are summarized as follows:

	2013	
	Fair Value	Historical Cost
Domestic equity securities	\$ 58,124,097	\$ 43,269,707
International equity securities	45,229,997	39,498,689
Fixed-income securities	67,403,982	68,536,030
U.S. Government, U.S. Government-guaranteed and agency securities	8,722,118	8,542,942
Short-term investment funds	2,981,820	2,981,820
Senior debt obligations	3,554,577	3,500,000
Private equity limited partnerships	6,906,297	5,417,827
Real assets	12,653,160	12,517,802
	<u>205,576,048</u>	<u>184,264,817</u>
Accrued interest and dividends	60,708	60,708
	<u>\$205,636,756</u>	<u>\$184,325,525</u>
	2012	
	Fair Value	Historical Cost
Domestic equity securities	\$ 43,432,001	\$ 39,515,515
International equity securities	39,457,431	37,655,173
Fixed-income securities	65,843,857	64,000,900
U.S. Government, U.S. Government-guaranteed and agency securities	9,163,494	7,953,037
Short-term investment funds	902,848	902,848
Private equity limited partnerships	6,341,049	5,524,639
Real assets	10,638,680	11,400,293
	<u>175,779,360</u>	<u>166,952,405</u>
Accrued interest and dividends	102,373	102,373
	<u>\$175,881,733</u>	<u>\$167,054,778</u>

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.

# SHEDD AQUARIUM SOCIETY

December 31, 2013 and 2012

## NOTES TO FINANCIAL STATEMENTS (continued)

### 6. PLEDGES RECEIVABLE

Various donors have made unconditional pledges of support to the Society. Pledges as of December 31, 2013, are expected to be collected as follows:

	<u>Total</u>
2014	\$ 4,073,405
2015 – 2016	<u>3,273,000</u>
	7,346,405
Less discounts at rates of 0.54-2.8%	<u>55,905</u>
	<u><u>\$7,290,500</u></u>

### 7. BONDS PAYABLE

Bonds payable outstanding as of December 31, 2013 and 2012 were:

	<u>2013</u>	<u>2012</u>
Bonds payable	\$ 25,620,000	\$ 26,875,000
Premium	<u>665,959</u>	<u>767,270</u>
	<u><u>\$ 26,285,959</u></u>	<u><u>\$ 27,642,270</u></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, 2013 and 2012

### NOTES TO FINANCIAL STATEMENTS (continued)

#### 7. BONDS PAYABLE (continued)

Maturities and mandatory redemptions are as follows for the Series 2005 bonds as of December 31, 2013:

<u>Year</u>	<u>Amount</u>	<u>Stated Interest Rate</u>	<u>Effective Interest Rate</u>
2014	1,305,000	5.00%	3.97%
2015	1,370,000	5.00%	4.04%
2016	1,440,000	5.00%	4.18%
2017	1,510,000	5.00%	4.29%
2018	1,590,000	5.00%	4.38%
2019 – 2027	18,405,000	4.50 - 5.25%	4.45 - 4.73%

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.

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.

Total interest cost incurred and paid in 2013 and 2012 was \$1,264,599 and \$1,320,643, respectively.

#### 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 2013 and 2012, respectively, were \$777,345 and \$722,000.

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 2013 and 2012, retirees paid \$44,894 and \$32,476, 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 \$40,271 and \$31,462 in 2013 and 2012, 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, 2013 and 2012

## NOTES TO FINANCIAL STATEMENTS (continued)

### 8. EMPLOYEE AND RETIREE BENEFITS (continued)

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

	<u>2013</u>	<u>2012</u>
Accumulated postretirement benefit obligation		
Retirees	\$ 196,000	\$ 223,000
Active employees eligible to retire	304,000	318,000
Active employees not eligible to retire	<u>2,210,000</u>	<u>2,327,000</u>
Accrued postretirement benefit cost	<u>\$ 2,710,000</u>	<u>\$ 2,868,000</u>

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

	<u>2013</u>	<u>2012</u>
Service costs - benefits earned during the year	\$ 222,000	\$ 207,000
Interest cost on accumulated postretirement benefit obligation	111,000	110,000
Amortization of net loss	<u>4,000</u>	<u>7,000</u>
Net periodic postretirement benefit obligation	<u>\$ 337,000</u>	<u>\$ 324,000</u>

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation at December 31, 2013 and 2012 ranged from 7% for 2014 to 5.0% for 2022 and beyond, and 7.25% for 2013 to 5.0% for 2022 and beyond, respectively. For 2013 and 2012, the discount rates used in determining annual expenses were 3.91% and 4.32%, respectively, and 4.82% and 3.91%, 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, 2013 would be increased by \$228,000. The effect of this change on the service and interest cost components of the net periodic postretirement benefit expense for 2013 would be an increase of \$41,000. If the health care cost trend rate assumptions were decreased by 1%, the accumulated postretirement benefit obligation as of December 31, 2013 would be decreased by \$202,000. The effect of this change on the service and interest cost components of the net periodic postretirement benefit expense for 2013 would be a decrease of \$36,000.

## **SHEDD AQUARIUM SOCIETY**

**December 31, 2013 and 2012**

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

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

The Society has established a Section 457(f) deferred incentive compensation plan, a Section 457(f) target benefit plan and a Section 457(b) retirement income deferral plan for a select group of management or highly compensated employees. The deferred incentive compensation plan and the retirement income deferral plan allow eligible employees to defer a percentage of their pre-tax compensation. The Society may make contributions for the benefit of eligible employees; the Society contributed \$0 in 2013 and \$0 in 2012 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, 2013 and 2012, total assets of the plans were \$385,165 and \$310,505, respectively. During 2012, benefits totaling \$2,579,032 became fully vested and were distributed from the Section 457(f) target benefit plan.

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

Operating expenses incurred by the Society during the years ended December 31, 2013 and 2012 according to their natural categories follow.

**SHEDD AQUARIUM SOCIETY**

**December 31, 2013 and 2012**

**NOTES TO FINANCIAL STATEMENTS**

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

	<b>2013</b>								
	<b>Conservation Education</b>	<b>Animal Care</b>	<b>Conservation Science and Research</b>	<b>Guest Services</b>	<b>Ancillary Services</b>	<b>Development and Membership</b>	<b>Fundraising Events</b>	<b>Management and General</b>	<b>Total</b>
Salaries	\$ 5,374,153	\$ 5,025,350	\$ 824,109	\$ 2,377,514	\$ 83,199	\$ 1,405,552	\$ 6,445	\$ 4,045,093	\$ 19,141,415
Employee benefits	1,485,335	1,356,880	235,178	469,092	27,488	524,162	1,416	1,243,408	5,342,959
Professional development	70,496	46,503	43,330	7,625	-	12,125	-	82,158	262,237
Professional fees	-	-	-	-	-	-	-	126,191	126,191
Outsourcing fees	1,229,436	254,024	14,378	90,478	142,378	9,901	3,997	44,213	1,788,805
Outside contractors	85,286	-	7,800	-	-	2,822	3,610	4,567	104,085
Contractual services	1,333,767	246,610	205,536	682,335	45,646	305,401	111,775	1,091,980	4,023,050
Printing and production	61,377	-	143,109	1,319	-	87,414	-	8,039	301,258
Advertising	61,268	-	-	-	-	-	4,250	1,736,364	1,801,882
Supplies	942,308	1,105,094	165,988	76,555	18,625	134,135	119,370	212,126	2,774,201
Telephone and communications	48,806	27,891	5,912	13,022	11,619	13,681	37	66,381	187,349
Postage and shipping	8,945	67,251	3,375	3,424	386	126,918	2,765	37,462	250,526
Travel and meetings	400,076	93,400	143,055	15,563	3,254	129,196	308,624	195,028	1,288,196
Repairs and maintenance	937,826	234,539	11,807	87,447	142,758	33,865	-	231,781	1,680,023
Occupancy	1,008,819	382,855	21,640	136,175	165,361	13,247	-	71,001	1,799,098
Insurance	48,706	576	40	-	-	-	-	458,770	508,092
Grants and contributions	-	2,000	107,750	-	-	-	-	10,500	120,250
Miscellaneous	1,092,166	17,045	3,492	5,039	1,226	28,603	73,916	106,327	1,327,814
Interest expense	1,258,462	-	-	-	-	-	6,137	-	1,264,599
Depreciation	6,811,341	2,607,377	147,922	930,841	1,130,341	84,988	-	431,865	12,144,675
Total operating expenses	<u>\$ 22,258,573</u>	<u>\$ 11,467,395</u>	<u>\$ 2,084,421</u>	<u>\$ 4,896,429</u>	<u>\$ 1,772,281</u>	<u>\$ 2,918,147</u>	<u>\$ 636,205</u>	<u>\$ 10,203,254</u>	<u>\$ 56,236,705</u>

	<b>2012</b>								
	<b>Conservation Education</b>	<b>Animal Care</b>	<b>Conservation Science and Research</b>	<b>Guest Services</b>	<b>Ancillary Services</b>	<b>Development and Membership</b>	<b>Fundraising Events</b>	<b>Management and General</b>	<b>Total</b>
Salaries	\$ 5,443,540	\$ 4,963,205	\$ 676,588	\$ 2,277,540	\$ 72,991	\$ 1,355,640	\$ 7,708	\$ 3,804,105	\$ 18,601,317
Employee benefits	1,578,537	1,447,347	198,988	466,072	22,729	541,001	2,073	1,204,183	5,460,930
Professional development	70,988	34,747	23,146	8,983	-	5,650	-	79,273	222,787
Professional fees	8,642	3,225	-	-	-	-	-	125,072	136,939
Outsourcing fees	1,140,787	230,999	13,105	84,895	121,847	8,963	4,909	39,428	1,644,933
Outside contractors	42,675	-	3,450	-	-	545	4,112	4,820	55,602
Contractual services	1,158,407	275,945	69,967	650,624	72,892	356,902	117,965	700,255	3,402,957
Printing and production	70,631	567	140,124	779	-	82,851	-	42,520	337,472
Advertising	113,711	-	-	-	-	-	-	1,540,600	1,654,311
Supplies	865,612	908,194	126,368	106,618	17,161	133,756	91,740	212,397	2,461,846
Telephone and communications	48,665	31,052	5,999	11,770	11,774	13,590	-	43,665	166,515
Postage and shipping	15,010	17,805	2,578	4,961	326	139,494	3,336	26,718	210,228
Travel and meetings	404,691	137,203	83,375	18,959	2,058	92,613	268,424	112,236	1,119,559
Repairs and maintenance	954,506	202,809	10,952	79,181	71,350	37,122	-	213,274	1,569,194
Occupancy	977,151	370,566	20,939	131,763	160,003	12,885	-	69,346	1,742,653
Insurance	48,563	569	-	-	-	-	-	505,609	554,741
Grants and contributions	-	1,000	80,750	-	-	-	-	1,250	83,000
Miscellaneous	852,904	89,978	6,058	1,966	12,116	24,526	54,580	98,658	1,140,786
Interest expense	1,314,363	-	-	-	-	6,280	-	-	1,320,643
Depreciation	6,721,113	2,572,838	145,963	918,510	1,115,368	83,863	-	426,143	11,983,798
Total operating expenses	<u>\$ 21,830,496</u>	<u>\$ 11,288,049</u>	<u>\$ 1,608,350</u>	<u>\$ 4,762,621</u>	<u>\$ 1,680,615</u>	<u>\$ 2,895,681</u>	<u>\$ 554,847</u>	<u>\$ 9,249,552</u>	<u>\$ 53,870,211</u>