**NAVY PIER, INC.**

Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

**NAVY PIER, INC.**

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Chicago, IL 60601-6436

# Independent Auditors' Report

The Board of Directors
Navy Pier, Inc.:

## Report on the Financial Statements

We have audited the accompanying financial statements of Navy Pier, Inc., which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years ended December 31, 2015 and 2014, 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 U.S. generally accepted accounting principles; 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.

### *Auditors' 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 auditors' 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 Navy Pier, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

***Report on Summarized Comparative Information***

We have previously audited Navy Pier, Inc.'s financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 15, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Chicago, Illinois
July 1, 2016

**NAVY PIER, INC.**

Statements of Financial Position

December 31, 2015 and 2014

| **Assets** | **2015** | **2014** |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 25,769,448 | 26,570,616 |
| Cash and cash equivalents – restricted | 8,587,353 | 11,713,526 |
| Investments | 129,800 | 91,458 |
| Investments – restricted | 10,699,817 | 7,212,905 |
| Accounts receivable, net | 2,784,101 | 2,645,992 |
| Promises to give | 3,750,000 | 3,750,000 |
| Prepaid expenses | 747,940 | 930,123 |
| Deposit – City of Chicago | 207,750 | 207,750 |
| Total current assets | 52,676,209 | 53,122,370 |
| Noncurrent assets: | | |
| Cash and cash equivalents – restricted | — | 3,267,945 |
| Investments – restricted | 595,000 | 10,232,055 |
| Due from MPEA | 507,265 | 143,402 |
| Deposit for purchase of Observation Wheel | — | 4,357,289 |
| Promises to give, net | 6,972,789 | 10,212,180 |
| Property and equipment: | | |
| Construction in progress | 24,956,401 | 68,276,866 |
| Leasehold improvements | 84,607,470 | 876,749 |
| Equipment and other | 4,946,742 | 3,527,424 |
| Total property and equipment | 114,510,613 | 72,681,039 |
| Less accumulated depreciation | (5,036,700) | (2,381,514) |
| Total property and equipment, net | 109,473,913 | 70,299,525 |
| Total assets | $ 170,225,176 | 151,634,766 |
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 19,670,540 | 18,707,430 |
| Advance deposits | 1,712,728 | 1,733,865 |
| Accrued interest payable | — | 34,505 |
| Derivative liability | 607,791 | 223,622 |
| Note payable to MPEA | — | 2,500,000 |
| Deposit from MPEA for Framework Plan | 434,123 | 5,295,153 |
| Total current liabilities | 22,425,182 | 28,494,575 |
| Noncurrent liabilities: | | |
| Bonds payable net of deferred bond issuance costs and accumulated amortization of $378,242 and $432,727 as of December 31, 2015 and 2014, respectively | 26,556,902 | 26,502,417 |
| Derivative liability | — | 135,982 |
| Total liabilities | 48,982,084 | 55,132,974 |
| Unrestricted net assets | 104,087,719 | 77,539,612 |
| Temporarily restricted net assets | 17,155,373 | 18,962,180 |
| Total net assets | 121,243,092 | 96,501,792 |
| Total liabilities and net assets | $ 170,225,176 | 151,634,766 |

See accompanying notes to financial statements.

**NAVY PIER, INC.**

Statements of Activities

Years ended December 31, 2015 and 2014

| | 2015 Unrestricted | 2015 Temporarily restricted | 2015 Total | 2014 |
|---|---|---|---|---|
| Revenue: | | | | |
| Retail | $ 14,442,364 | — | 14,442,364 | $ 12,476,960 |
| Parking | 9,757,285 | — | 9,757,285 | 9,541,433 |
| Pier park amusements | 7,310,682 | — | 7,310,682 | 6,788,833 |
| Special events and entertainment | 3,560,811 | — | 3,560,811 | 3,085,954 |
| Use of exhibition facilities | 5,191,754 | — | 5,191,754 | 4,448,435 |
| Food and beverage | 2,860,544 | — | 2,860,544 | 2,571,764 |
| Theater | 19,913 | — | 19,913 | 934,298 |
| Sponsorship | 1,924,082 | — | 1,924,082 | 1,630,716 |
| Contributions, grants and contracts for programs | 105,750 | — | 105,750 | — |
| Other | 5,602 | — | 5,602 | 13,840 |
| Total revenue | 45,178,787 | — | 45,178,787 | 41,492,233 |
| Expenses: | | | | |
| Program: | | | | |
| Salaries and benefits | 7,200,525 | — | 7,200,525 | 7,763,342 |
| Outsourced services | 17,930,603 | — | 17,930,603 | 15,489,302 |
| Other services | 2,078,699 | — | 2,078,699 | 2,293,594 |
| Utilities | 2,947,512 | — | 2,947,512 | 3,127,437 |
| Marketing | 2,358,290 | — | 2,358,290 | 2,583,148 |
| Equipment and supplies | 999,575 | — | 999,575 | 1,099,651 |
| Professional fees | 1,444,135 | — | 1,444,135 | 1,097,352 |
| Insurance | 1,495,304 | — | 1,495,304 | 1,474,483 |
| Other | 61,835 | — | 61,835 | 79,660 |
| Total program expenses | 36,516,478 | — | 36,516,478 | 35,007,969 |
| Management and general: | | | | |
| Salaries and benefits | 3,922,250 | — | 3,922,250 | 3,439,213 |
| Outsourced and other services | 404,918 | — | 404,918 | 381,585 |
| Utilities | 82,018 | — | 82,018 | 91,492 |
| Equipment and supplies | 416,429 | — | 416,429 | 411,359 |
| Professional fees | 991,414 | — | 991,414 | 950,030 |
| Insurance | 222,837 | — | 222,837 | 206,947 |
| Other | 74,944 | — | 74,944 | 62,264 |
| Total management and general | 6,114,810 | — | 6,114,810 | 5,542,890 |
| Total expenses | 42,631,288 | — | 42,631,288 | 40,550,859 |
| Excess of revenue over expenses before other changes in net assets | 2,547,499 | — | 2,547,499 | 941,374 |
| Development administration expense | (693,547) | — | (693,547) | (952,982) |
| Fundraising expense | (619,620) | — | (619,620) | (598,380) |
| Depreciation expense | (2,655,185) | — | (2,655,185) | (814,682) |
| Interest income | 47,227 | — | 47,227 | 43,549 |
| Investment income | 65,600 | — | 65,600 | 11,230 |
| Interest expense | (120,435) | — | (120,435) | (36,922) |
| Derivative loss on foreign currency transaction | (770,243) | — | (770,243) | (129,149) |
| Derivative loss on foreign currency transaction – unrealized | (248,187) | — | (248,187) | (359,604) |
| Unrealized loss on investments | (42,692) | — | (42,692) | (32,177) |
| Proceeds from sale of Ferris Wheel | 570,000 | — | 570,000 | — |
| Insurance recoveries for property damage | 809,221 | — | 809,221 | — |
| Contributions, grants and contracts for capital projects | 480,024 | 510,609 | 990,633 | 18,962,180 |
| Net assets released from restriction | 2,317,416 | (2,317,416) | — | — |
| MPEA reimbursement for Framework Plan expenses | 24,861,029 | — | 24,861,029 | 57,915,993 |
| Change in net assets | 26,548,107 | (1,806,807) | 24,741,300 | 74,950,430 |
| Net assets – beginning of year | 77,539,612 | 18,962,180 | 96,501,792 | 21,551,362 |
| Net assets – end of year | $ 104,087,719 | 17,155,373 | 121,243,092 | $ 96,501,792 |

See accompanying notes to financial statements.

**NAVY PIER, INC.**

Statements of Cash Flows

Years ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 24,741,300 | 74,950,430 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| MPEA reimbursement for Framework Plan expenses | (24,861,029) | (57,915,993) |
| Depreciation | 2,655,185 | 814,682 |
| Amortization of bond issuance costs | 54,485 | — |
| Proceeds from sale of Ferris Wheel | (570,000) | — |
| Donation of stock | (129,620) | — |
| Insurance recoveries for property damage | (809,221) | — |
| Net realized and unrealized (income) losses on investments | (22,908) | 32,855 |
| Contributions and grants restricted for capital projects | (350,404) | (5,000,000) |
| Amortization of discount for promises to give | (510,609) | — |
| Changes in assets and liabilities: | | |
| Accounts receivable | (138,109) | (1,696,028) |
| Promises to give | 3,750,000 | (13,962,180) |
| Prepaid expenses | 182,183 | (374,898) |
| Accounts payable and accrued expenses | 963,110 | 10,542,253 |
| Advance deposits | (21,137) | 904,422 |
| Due from MPEA | (363,863) | 143,402 |
| Derivative liability | 248,187 | 359,604 |
| Accrued interest payable | (34,505) | 34,505 |
| Net cash provided by operating activities | 4,783,045 | 8,833,054 |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investments | 11,111,192 | 2,866,730 |
| Purchases of investments | (4,846,863) | (17,493,571) |
| Purchase of property and equipment | (36,902,285) | (57,548,180) |
| Deposit for purchase of observation wheel | — | (4,357,289) |
| Insurance recoveries for property damage | 809,221 | — |
| Net cash used in investing activities | (29,828,735) | (76,532,310) |
| Cash flows from financing activities: | | |
| Bond proceeds | — | 26,935,144 |
| Bond issuance costs | — | (432,727) |
| Contributions and grants restricted for capital projects | 350,404 | 5,000,000 |
| Loan repayment | (2,500,000) | (2,500,000) |
| Deposit for Framework Plan from MPEA | 20,000,000 | 20,000,000 |
| Net cash provided by financing activities | 17,850,404 | 49,002,417 |
| Net decrease in cash and cash equivalents | (7,195,286) | (18,696,839) |
| Cash and cash equivalents – beginning of year | 41,552,087 | 60,248,926 |
| Cash and cash equivalents – end of year | $ 34,356,801 | 41,552,087 |

See accompanying notes to financial statements.

## (1) Nature of the Organization and Summary of Significant Accounting Policies

### *(a) Nature of the Organization*

Navy Pier, Inc. (NPI) is a not-for-profit organization established on January 4, 2011 for the purpose of managing, operating, and redeveloping Navy Pier (the Pier). The Pier is a tourist and leisure destination located in Chicago, Illinois, and provides dining, shopping, cultural events, amusement park rides, and various other entertainment options to its visitors. The Pier is owned by the Metropolitan Pier and Exposition Authority (MPEA), a local government entity established by the Illinois General Assembly. NPI was created to lessen the burden of the government by operating and facilitating the redevelopment of the Pier. The long-term strategic plan for the Pier is to improve the mix of retail, dining, cultural, and entertainment options in an effort to further expand the Pier's customer base to drive an increase in year-round attendance. A key component of the plan is the redevelopment of the infrastructure to update the look and feel of the Pier and improve the overall facility. While MPEA retains ownership of the Pier, NPI has the authority to make key decisions on operations, maintenance, and implementation of the Pier's revitalization.

### *(b) Basis of Presentation*

The financial statements of NPI have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

These financial statements have been prepared to focus on NPI as a whole and to present balances and transactions classified according to the existence or absence of donor-imposed restrictions. This has been accomplished by classifying transactions into two classes of net assets – unrestricted and temporarily restricted. Descriptions of the two net asset categories are as follows:

- *Unrestricted* – Net assets that are not subject to donor-imposed restrictions.
- *Temporarily Restricted* – Net assets subject to donor-imposed restrictions that will be met by actions of NPI or the passage of time.

NPI considers operating the Pier as its only program, and reports the operations of the Pier as revenue and expenses before development administration expense, depreciation expense, fund-raising expense, interest and investment income, contributions for capital projects and other unusual or nonrecurring items. Other changes in unrestricted net assets consist of revenue and expenses associated with the lease agreement, as further described in note 2.

### *(c) Cash, Cash Equivalents, and Restricted Cash*

Cash consists of cash on hand and demand deposits. Cash equivalents consist of highly liquid short-term investments with original maturities of 90 days or less. Restricted cash consists of cash received from MPEA to be used for implementation of the Pier's Framework Plan, contributions restricted for construction projects, funds restricted for the purchase of an observation wheel, and amounts restricted for vendor reserve accounts, as further described in notes 2 and 12.

### *(d) Accounts Receivable*

Accounts receivable consists of rents due from the Pier tenants, trade accounts receivable due for NPI's convention and meeting business, and amounts due from NPI's parking and foodservice contractors. A bad debt reserve of approximately $47,000 and $48,000 was recorded as of December 31, 2015 and 2014, respectively, related to tenant and event accounts receivable.

### *(e) Prepaid Expenses*

Prepaid expenses consist primarily of prepayments for insurance coverage.

### *(f) Investments*

Investments in debt and equity securities are measured at fair value in the accompanying statements of financial position. Interest and realized gains and losses on sales of investments are reported as investment income while unrealized gains and losses are reported separately in the accompanying statements of activities as a component of other changes in unrestricted net assets. Restricted investments consist of amounts held for purchase and installation of an observation wheel.

### *(g) Deposit for Purchase of Observation Wheel*

On December 15, 2014, NPI entered into a purchase contract (the Purchase Contract) with Dutch Wheels B. V. (the Seller) to purchase an observation wheel to replace the current Ferris wheel. Under the terms of the Purchase Contract, the Seller will manufacture and deliver an observation wheel model DW60/42 (the OW) to NPI. The price also includes testing and commissioning of the ride. The contract price is 11.9 million euros payable in four installments beginning in December 2014 with the final payment to be made in June 2016. The first payment to the Seller of €3,561,513 was made on December 22, 2014. This payment had an equivalent value of $4,357,289 on the date of the transaction, which was recorded as a deposit in the accompanying statement of financial position as of December 31, 2014. During 2015, NPI took delivery of the parts of the OW and installation has begun but is not complete at December 31, 2015. Therefore, amounts held as Deposit for Purchase of Observation Wheel at December 31, 2014 have been capitalized as Construction in Progress at December 31, 2015.

### *(h) Property and Equipment*

Property and equipment consist of leasehold improvements to the real property of the Pier and equipment and other personal property. The leasehold improvements and equipment and other assets are stated at cost and depreciated over their estimated useful lives using the straight-line method. Interest on borrowings used to fund capital projects is capitalized and amortized over the life of the asset. Contributed property and equipment is stated at fair value as of the date of the gift. Useful lives are estimated as follows:

| | |
|---|---|
| Leasehold improvements (the shorter of the lease term or estimated useful life) | 7–25 years |
| Furniture | 7 years |
| Equipment | 2–5 years |

The leasehold improvements are legally owned by MPEA. Betterments, improvements, and repairs that extend the useful life of an asset and which have a cost of more than $25,000 are capitalized. Furniture and equipment that have a useful life of more than one year and a unit cost of more than $10,000 are capitalized. Group asset purchases are capitalized when the cost exceeds $50,000. Routine repairs and maintenance are expensed as incurred.

NPI reviews its assets for impairment on an annual basis to determine whether events or changes in circumstances indicate whether the carrying amount of an asset may not be recoverable. In 2014, it was determined that an asset with an expected life of 20 years was demolished in connection with the renovation. Accelerated depreciation was recorded related to this asset of $145,000. NPI did not recognize any impairment charges during the year ended December 31, 2015.

During the year ended December 31, 2015, NPI entered into a contract to sell the old Ferris Wheel, which had no book value. The proceeds from the sale of the old Ferris Wheel were used to fund installation and other costs of the new OW. The value of the agreement was $570,000 and this amount was recognized in the accompanying statement of activities as Proceeds from sale of Ferris Wheel.

### *(i) Revenue*

Revenue from services is recognized when the related services are provided. Revenue includes tenant rental revenue, parking fee revenue, amusement park and special event revenue, revenue related to the use of exhibition facilities (event revenue), food and beverage revenue primarily related to event revenue, revenue from operation of a seasonal theater, and sponsorship revenue. Advance collections and deposits related to event revenue and sponsorships are recorded as advance deposits and are reflected as current liabilities in the accompanying statements of financial position.

Contributions and programmatic grants, including donations of cash, property, in-kind contributions and unconditional promises to give (pledges) are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value at the date of donation. Contributions to be received subsequent to year-end are discounted at an appropriate rate commensurate with the risks involved. The amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, as the pledge is satisfied. An allowance for uncollectible pledges received is provided based upon management’s judgment and consideration of various factors including prior collection history, type of contribution, and nature of fund-raising activity.

Contributions of land, buildings, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are recognized at fair value and reported as revenue of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with donor restrictions on use are reported as revenue of the temporarily restricted net asset class; the restrictions are considered to be released at the time such long-lived assets are placed in service.

Programmatic and capital grants and contributions are recorded as unrestricted revenue as the work is performed. Amounts expended in advance of reimbursements would be reported as grants or contracts receivable. Amounts received prior to work being performed would be recorded as deferred revenue.

In May 2015, NPI announced a corporate partnership with a local Chicago organization that will provide $5 million to NPI over the course of four years. In exchange, NPI will provide the organization with naming rights to the Grand Ballroom for 20 years, and various other sponsorship opportunities over five years. The revenue, allocated to the various components of the agreement based on the individual relative selling prices estimated by NPI, will be recognized over the terms of the individual sponsorships. $369,155 of sponsorship revenue related to this corporate sponsorship was recorded during the year ended December 31, 2015.

### *(j) Promises to Give*

Promises to give represent unconditional promises to give and are reported at fair value by discounting the expected future payments beyond one year at 5%. The discount rate used to determine the present value of promises to give represents a risk-adjusted rate of return at the date of donation. Management evaluates payment history and market conditions and has determined that no allowance for doubtful pledges is needed.

Unconditional promises to give are estimated to be collected as follows at December 31, 2015 and 2014:

| | | 2015 | 2014 |
|---|---|---|---|
| Within one year | $ | 3,750,000 | 3,750,000 |
| In one to five years | | 7,500,000 | 11,250,000 |
| | | 11,250,000 | 15,000,000 |
| Less discount to net present value at 5% | | (527,211) | (1,037,820) |
| | $ | 10,722,789 | 13,962,180 |
| Promise to give reported as: | | | |
| Promise to give – current | $ | 375,000 | 3,750,000 |
| Promise to give, net – noncurrent | | 6,972,789 | 10,212,180 |
| | $ | 7,347,789 | 13,962,180 |

At December 31, 2015 and 2014, one donor accounted for the total promises to give.

### *(k) Income Taxes*

NPI has received a determination letter from the Internal Revenue Service dated July 24, 2011 indicating that NPI is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. NPI has adopted the requirements for accounting for uncertain tax positions in accordance with Accounting Standards Codification (ASC) 740-10, *Income Taxes – Overall*. NPI is subject to income taxes only on income determined to be unrelated business income.

Management believes there are no material uncertain tax positions that require recognition in the accompanying financial statements. NPI has a policy to record interest and penalties (if any) related to income tax matters in income tax expense.

NPI recognized no interest or penalties for the years ended December 31, 2015 and 2014. NPI is currently undergoing an examination by the Internal Revenue Service for the year ended December 31, 2013. The scope of the examination includes a review to ensure all unrelated business income has been properly reported. As of the date of this report, the results of the examination have not been finalized. NPI is no longer subject to examination by federal, state or local authorities for periods before 2013.

***(l) Management's Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

***(m) Adoption of New Accounting Standards***

In January 2016, the Financial Accounting Standards Board issued guidance that updates Subtopic 825-10, Financial Instruments. Management can elect to early adopt the majority of provisions within the guidance during the year ended December 31, 2017, and one provision can be adopted upon the issuance of the guidance. During the year ended December 31, 2015, NPI has elected to adopt the provision of the ASU that eliminates the requirement to disclose the fair value of financial instruments carried at amortized cost. Other provisions of the guidance will be applied in the year beginning January 1, 2017, as allowed by the guidance.

***(n) Reclassifications***

Certain 2014 financial statement line items have been reclassified to conform to the 2015 presentation.

***(o) Subsequent Events***

NPI has performed an evaluation of subsequent events through July 1, 2016, which is the date the financial statements were issued.

**(2) Lease Agreement**

Effective July 1, 2011, NPI entered into a long-term lease agreement (the Lease Agreement) with MPEA to manage, operate and develop the Pier. MPEA retains ownership of the Pier and NPI has the authority to make key decisions related to operations, maintenance, and the implementation of the Pier's revitalization. These activities are defined as "Approved Operations" in the Lease Agreement, and are summarized as follows:

(a) Implementation of the Framework Plan (defined hereafter)

(b) Maintaining, repairing, operating, designing, financing, subleasing, licensing, developing, redeveloping, and/or demolishing the grounds, buildings and facilities consistent with the Framework Plan

(c) Supporting and benefiting MPEA through developing and operating the Pier for the achievement of MPEA's governmental purposes

The "Framework Plan" is a comprehensive long-term plan to maintain the Pier as a high-profile public attraction and to guide the redevelopment of the Pier. The Framework Plan sets forth business objectives (including the intent to maintain the public nature of the Pier), a master land use plan, investment priorities, development costs, and potential sources of private and public funding along with the conditions to be satisfied by NPI in order to maintain public funding. The Framework Plan was developed during the transition period (from approximately February 2011 until the effective date of the lease of July 1, 2011) and can be amended by the parties throughout the lease term in accordance with the provisions of the Lease Agreement.

Significant terms of the Lease Agreement as amended are as follows:

- The Lease Agreement term is from July 1, 2011 through June 30, 2036, with four renewal options of 20 years each, for a total possible term of 105 years. The Lease Agreement requires NPI to pay MPEA rent of $1 per year and to operate the Pier in accordance with the Framework Plan. NPI has prepaid rent of $1 per year for the initial lease term of 25 years ended June 30, 2036.
- MPEA will give NPI $60,000,000 to be used for Approved Operations as defined in the Lease Agreement. MPEA may also make its bonding capacity available to NPI or to consent to financing the Approved Operations with debt obligations that extend beyond the term of the Lease Agreement.
- MPEA will loan NPI $5,000,000 to help fund the initial operating costs.
- Ownership of all personal property located on the Pier will be transferred to NPI. Accordingly, NPI received parking, food service, theater, computer, and other miscellaneous equipment totaling approximately $1.7 million during the period ended December 31, 2011. Such equipment was recorded at its fair value as a contribution of personal property from MPEA and is depreciated over the estimated remaining useful life of the equipment at the date of transfer.
- NPI can terminate the Lease Agreement at any time. MPEA can terminate the agreement only upon default by NPI. Events of default include (a) failure by NPI to comply in any material respect with the Framework Plan, or with the terms of the Lease Agreement (if failure is not remedied within 90 days after written notice); (b) failure by NPI to pay the Promissory Note when due, and such failure continues for more than 60 days; (c) NPI abandons the premises or (d) NPI is bankrupt or insolvent.
- At termination, all assets, including the premises and revenue from all sources, must be returned to MPEA. If donations cannot be legally transferred due to the intention of the donor, NPI and MPEA must mutually agree to the disposition.

NPI has accounted for the Lease Agreement as an operating lease. NPI received $20,000,000 from MPEA during each of the years ended December 31, 2015 and 2014. As of December 31, 2015 and 2014, NPI has unspent cash related to the Lease Agreement totaling $434,123 and $5,295,153, respectively, which is reflected as restricted cash and investments. NPI has recorded a corresponding deposit liability from MPEA for the Framework Plan in the accompanying statements of financial position totaling $434,123 and $5,295,153 as of December 31, 2015 and 2014, respectively. Restricted cash and investments and the corresponding MPEA deposit liability that are expected to be expended in the next year are classified as current. The remaining funds are classified as noncurrent.

Of the amount received from MPEA in 2015, $23,547,862 was spent on leasehold improvements, $693,547 was spent on administrative expenses related to implementation of the Framework Plan, and $619,620 was spent on fundraising expenses during 2015. Of the amount received from MPEA in 2014, $56,371,175 was spent on leasehold improvements, $946,438 was spent on administrative expenses related to implementation of the Framework Plan, and $598,380 was spent on fundraising expenses during 2014. Administrative expenses directly related to implementation of the Framework Plan are recorded in NPI's statements of activities as development administration expense. NPI recorded MPEA reimbursement for Framework Plan expenses totaling $24,861,029 and $57,915,993 for the years ended December 31, 2015 and 2014, respectively, which corresponds to the total of administrative expenses and fundraising expenses directly related to implementation of the Framework Plan and spending on leasehold improvements. The refundable landscaping deposit paid to the City of Chicago and charged to Framework Plan spending during 2013 is expected to be received in 2016, and will be used for other Framework purposes at that time.

In 2014, required environmental remediation was identified on certain land that NPI manages. As part of the lease agreement with MPEA, NPI is indemnified from bearing this cost. As of December 31, 2015 and 2014, NPI has recorded the costs incurred of $507,265 and $143,402, respectively, as a long-term receivable from MPEA.

## (3) Investments

The following table summarizes the types of investments and total return on investments as of and for the years ended December 31, 2015 and 2014:

| | | 2015 | 2014 |
|---|---|---|---|
| Type of investments: | | | |
| Certificates of deposit | $ | 1,000,103 | 3,437,369 |
| Domestic municipal bonds | | 2,066,594 | 1,385,068 |
| Domestic equity securities | | 129,800 | — |
| Corporate bonds: | | | |
| Domestic fixed-income securities | | 7,221,960 | 11,682,170 |
| Foreign fixed-income securities | | 1,006,160 | 1,031,811 |
| Total investments – at fair value | $ | 11,424,617 | 17,536,418 |
| Return on investments: | | | |
| Interest income | $ | 63,853 | 11,908 |
| Realized gain (loss) on sale of investments, net | | 1,747 | (678) |
| Unrealized loss on investments, net | | (42,692) | (32,177) |
| Total return on investments | $ | 22,908 | (20,947) |
| Reported as: | | | |
| Investment income | $ | 65,600 | 11,230 |
| Unrealized loss on investments, net | | (42,692) | (32,177) |
| Total return on investments | $ | 22,908 | (20,947) |

## (4) Fair Value of Financial Instruments

NPI evaluates its financial instruments in accordance with the fair value disclosure requirements of U.S. GAAP, which requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels: quoted market prices in active markets for identical assets or liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for an asset or liability (Level 3).

NPI's financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued expenses, advance deposits, note payable to MPEA, and the deposit from MPEA for Framework Plan are carried at historical cost, which approximates their fair values because of the short-term nature of these instruments.

The following methods and assumptions are used to estimate the fair value of NPI's financial instruments:

There has been no change in valuation methodologies between 2014 and 2015.

*Cash equivalents* are money market funds carried at cost as an approximation of fair value.

*Fixed maturity investments* including certificates of deposit, municipal bonds and corporate bonds are carried at fair value, based upon quoted market prices on nationally recognized securities exchanges (Level 1 inputs) or on quoted market prices of similar securities by relying on these securities relationship to other benchmark quoted prices (Level 2 inputs). These techniques make use of assumptions that market participants would use in pricing the respective asset and may require some degree of judgment.

*Domestic equity securities* are carried at fair value, based upon quoted market prices on nationally recognized securities exchanges (Level 1 inputs).

*Promises to give* are discounted for time value of money by a risk-adjusted rate of return and approximate fair value.

The fair value of *derivative contracts* as of December 31, 2015 and 2014 was based on the currency spot reference rate for EUR relative to USD according to a leading worldwide provider of currency market values adjusted for forward points and discounted to arrive at the net present value. As the fair value of derivative positions is based on quoted market prices of similar securities and the securities relationship to other benchmark quoted prices, they are classified as Level 2 inputs.

NPI's cash equivalents and investments are accounted for at fair value on a recurring basis, using the fair value hierarchy as follows:

| | | December 31, 2015 | |
|---|---|---|---|
| | | **Level 1** | **Level 2** |
| Cash equivalents | $ | — | 4,726,539 |
| Investments: | | | |
| Certificates of deposit | $ | — | 1,000,103 |
| Domestic municipal bonds | | — | 2,066,594 |
| Domestic equity securities | | 129,800 | |
| Corporate bonds: | | | |
| Domestic fixed-income securities | | — | 7,221,960 |
| Foreign fixed-income securities | | — | 1,006,160 |
| Total investments – at fair value | $ | 129,800 | 11,294,817 |
| Liabilities: | | | |
| Derivative contracts – foreign currency exchange positions | $ | — | 607,791 |

| | | December 31, 2014 | |
|---|---|---|---|
| | | **Level 1** | **Level 2** |
| Cash equivalents | $ | — | 14,247,609 |
| Investments: | | | |
| Certificates of deposit | $ | — | 3,437,369 |
| Domestic municipal bonds | | — | 1,385,068 |
| Corporate bonds: | | | |
| Domestic fixed-income securities | | — | 11,682,170 |
| Foreign fixed-income securities | | — | 1,031,811 |
| Total investments – at fair value | $ | — | 17,536,418 |
| Liabilities: | | | |
| Derivative contracts – foreign currency exchange positions | $ | — | 359,604 |

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event of the change in circumstance, which caused the transfer. There were no transfers between the levels of the fair value hierarchy in 2015 or 2014.

## (5) Derivative Instruments

As discussed in note 1(g), on December 15, 2014, NPI entered into a purchase contract with Dutch Wheels B.V. (the Seller) to purchase an observation wheel to replace the current Ferris wheel (the Purchase Contract). Under the terms of the Purchase Contract, the Seller will manufacture and deliver an observation wheel model DW60/42 (the OW) to NPI. The price also includes testing and commissioning of the ride. The contract price is €11.9 million payable in four installments beginning in December 2015 with the final payment to be made in June 2016. The first payment to the Seller of €3,561,513 was made on December 22, 2014. This payment had an equivalent value of $4,357,289 on the date of the transaction and is recorded as a deposit in the accompanying statement of financial position as of December 31, 2014.

NPI utilized derivative instruments (standard forward contracts) to economically hedge its exposure to potential exchange rate increases of the euro (EUR) relative to the U. S. dollar (USD) for the period the OW payments will be made over, from December 2015 to June 2016 (the Exposure Period).

To help ensure the actual cumulative cost of the euro payments did not exceed $15,000,000, on December 15, 2014 (the same day in which the purchase contract was entered), NPI executed four forward contracts to buy euro amounts deliverable on the installment dates during the Exposure Period.

The indicative weighted average EUR-USD forward rate for the Exposure Period prior to entering into the agreement was 1.26, and as such, NPI established an internal budgeted cost for the purchase of the OW of $15,000,000. The total USD equivalent of the four forward EUR contracts purchased amounted to $14,954,793.

The hedges are deemed economic as they do not qualify for hedge accounting treatment, and as such, unrealized gains or losses from the derivatives are recognized in income and each corresponding derivative is recorded as an asset or liability on the statements of financial position. Since the execution of the hedges, the EUR-USD exchange rate declined resulting in negative mark-to-market valuations of the outstanding derivatives. The economic impact to NPI remains unchanged as the cost of the underlying exposure has declined predominantly commensurate to the degree of the negative mark-to-market valuations. Should NPI need to offset the hedges prior to their maturity dates at the prevailing market rate, the realized loss generated by the offset of the hedge would be largely negated by the lower cost of purchasing EUR in the spot market. In this regard, the objective of minimizing variables to the financial performance of the contract was successfully met.

For the years ended December 31, 2015 and 2014, in connection with payments made to the Seller for the OW, NPI recorded a realized derivative loss on foreign currency transactions of $770,243 and $129,149, respectively. At December 31, 2015 and 2014, NPI recorded an unrealized derivative loss on foreign currency transaction of $248,187 and $359,604, respectively, for the variance between the market value and contract rate on the forward contracts for euros related to the remaining installments payable to the Seller in 2015 and 2016.

## (6) Note Payable to MPEA

In connection with the Lease Agreement, MPEA and NPI executed a promissory note dated July 1, 2011 (the Promissory Note) totaling $5,000,000. The Promissory Note bears no interest and was originally due and payable on July 1, 2014. The Promissory Note was amended on May 16, 2014 to extend the payment terms to $2,500,000 payable on or before December 15, 2014 and $2,500,000 payable on or before June 15, 2015. NPI paid MPEA $2,500,000 on December 15, 2014 and $2,500,000 on June 11, 2015. At December 31, 2015, no balance was outstanding on the note.

## (7) Long-Term Debt

Long-term debt outstanding at December 31, 2015 and 2014 consisted of the following:

| | Interest rate | Fiscal year maturity | | |
|---|---|---|---|---|
| Illinois Finance Authority (IFA): | | | | |
| Series 2014A Bonds [a] | 2.90% | 2024 | $ | 26,500,000 |
| Series 2014B Bonds [b] | Variable | 2023 | | 435,144 |
| Total bonds payable | | | $ | 26,935,144 |

[a] In December 2014, NPI issued $26.5 million in IFA general obligation bonds, Series 2014A, which were purchased by Fifth Third Bank (the Lender). The proceeds of the bonds will be used to pay the costs of manufacturing and installing a new Observation Wheel and completing necessary structural improvements to Pier Park (the OW Project). The Series 2014A bonds are interest only through 2017, with principal payments commencing on January 1, 2018, and with a $17,225,000 balloon payment due at maturity on January 1, 2024.

[b] In December 2014, NPI was authorized to issue $20.0 million in IFA general obligation drawdown bonds, Series 2014B. The proceeds of the bonds may be used for capital projects subject to Lender approval, including $15.0 million earmarked for the construction of a live performance theater. The Series 2014B bonds are interest only through 2016, with principal payments commencing on January 1, 2017 and are fully payable on January 1, 2023.

As of December 31, 2014, NPI had drawn $435,144 from Series 2014B bonds to fund the bond issuance costs of the Series 2014A and Series 2014B bonds. Deferred bond issuance costs had an unamortized balance of $378,242 and $432,727 at December 31, 2015 and 2014, respectively.

The Series 2014A and Series 2014B bonds are secured by the general revenue of NPI. The terms of the agreement require NPI to meet specified covenants, including limitations on incurring additional indebtedness and maintaining certain liquidity measures as defined within the agreement.



(Continued)

Required principal payments for the IFA bonds are as follows:

| | | Bonds payable |
|---|---|---|
| Year(s) ending December 31: | | |
| 2016 | $ | — |
| 2017 | | 435,144 |
| 2018 | | 1,295,000 |
| 2019 | | 1,306,000 |
| 2020 | | 1,316,000 |
| Thereafter | | 22,583,000 |
| | $ | 26,935,144 |

Interest on the Series 2014A bonds is payable quarterly in arrears through January 1, 2024 at a fixed rate of 2.90%. Interest on borrowings used to finance capital projects is capitalized and amortized over the life of the asset. The amount of interest capitalized for the year ending December 31, 2015 was $721,316. No interest was capitalized in 2014.

Interest on the Series 2014B bonds is payable quarterly in arrears through December 31, 2016 at a floating rate of interest of 1.65% plus 65.01% of the London Interbank Offered Rate (LIBOR) interest rate. From January 1, 2017 through January 1, 2023, the floating rate is 1.65% plus 65.01% of the LIBOR interest rate plus 35% of the difference between the Future WAL Swap Rate and 1.29%. At December 31, 2015 and 2014, the interest rate on the Series 2014B Bonds was 1.8606% and 1.8077%, respectively.

Interest expense for the years ended December 31, 2015 and 2014, net of capitalized interest in 2015, was $120,435 and $36,922, respectively.

## (8) Employee Benefits and Retirement Plan

NPI offers its employees who have reached the age of 21 and have completed 1,000 hours of continuous service in their anniversary year a Section 401(k) deferred compensation retirement plan (the Plan). The 401(k) plan commenced effective August 1, 2013. NPI contributes to the Plan for eligible nonrepresented employees and the Plan also permits eligible employees to defer a portion of their salaries. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Plan only allows for voluntary contributions from union employees.

The provisions of the Plan allow employees to contribute a portion of current earnings up to limits established by the Internal Revenue Service. NPI will make a matching contribution equal to 100% of the first 3% of annual salary contributed by the eligible employee. NPI also contributes 3% of earnings for eligible employees for a total maximum employer contribution of 6%.

All assets of the Plan are held in a trust in the name of the Plan and are used exclusively to pay benefits to the participants and their beneficiaries. As such, NPI does not report the assets and liabilities of the retirement plans in the accompanying financial statements.

NPI contributed $303,000 to the Plan for 78 eligible employees during the year ended December 31, 2015 and $296,000 to the Plan for 77 eligible employees during the year ended December 31, 2014.

NPI also contributed to 8 and 11 separate multiple-employer pension, retirement, and annuity plans in 2015 and 2014, respectively. Contributions under all plans are based on collective bargaining agreements with the various trade unions. Pension and related contributions under the collective bargaining agreements totaled approximately $738,000 and $781,000 for the years ended December 31, 2015 and 2014, respectively.

**(9) Restricted Net Assets**

All temporarily restricted net assets at December 31, 2015 and 2014 are restricted by a donor for a building project. Such amounts will be released as unrestricted as construction is performed.

**(10) Related-Party Transactions**

MPEA provided and continues to provide certain services to NPI, including contracted security personnel, utilities, telecommunication services, payroll processing services, and equipment rental services. Costs for services purchased from the MPEA totaled approximately $5.3 million and $5.1 million for the years ended December 31, 2015 and 2014, respectively, and are included primarily in outsourced services and utilities in the accompanying statements of activities.

**(11) Risk Management**

NPI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to customers, employees, contractors, or vendors; and natural disasters. NPI utilizes a comprehensive insurance program for its property and casualty coverage provided by commercial insurance carriers.

During the year ended December 31, 2015, NPI received insurance proceeds relating to two separate property and casualty insurance claims. These amounts, totaling $809,221, were reported in the accompanying statement of activities as Insurance Recoveries for Property Damage. All proceeds were expended to repair the related assets and the expenditures were deemed to extend the useful life of those assets.

NPI is subject to legal proceedings arising in the course of its normal business activities. In the opinion of management, any such matters will be resolved without material adverse effect on NPI’s financial position or change in net assets.

**(12) Commitments and Contingencies**

In connection with its foodservice agreement with its food service manager and caterer, Chicago Signature Services, NPI is required to reserve 3.5% of gross foodservice receipts primarily for the replacement of small wares and equipment used in the foodservice operation. The funds can also be used for funding certain other foodservice-related activities. The balance in the reserve account as of December 31, 2015 and 2014 was approximately $94,000 and $152,000, respectively, and is included in restricted cash.



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In December 2014, NPI entered into a purchase contract with Dutch Wheels B.V. to purchase an observation wheel ride to replace the current Ferris wheel. The contract price is €11.9 million, payable in four installments beginning in December 2014 with the final payment to be made in June 2016. As of December 31, 2015, the remaining installment totaled €3.6 million, which is being held as restricted cash and investments. The restricted cash and investments were used to fund an irrevocable commercial letter of credit put in place in September 2015 with Fifth Third Bank. In June 2016, NPI utilized the letter of credit to pay the final installment under the Purchase Contract with Dutch Wheels B.V.

NPI is currently party to a dispute with a contractor. NPI has accrued an amount at December 31, 2015 that it believes to be the best estimate of costs incurred by NPI and payable to the contractor. While NPI believes it has a strong supportable position, the matter is not yet concluded and a more accurate estimate of the final settlement amount cannot be made as of the date of this report.