NAVY PIER, INC.

Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

NAVY PIER, INC.

Table of Contents

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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, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, 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.

Emphasis of Matter

As discussed in note 1(m) to the financial statements, in 2017, Navy Pier, Inc. adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Chicago, Illinois
June 15, 2018

NAVY PIER, INC.

Statements of Financial Position

December 31, 2017 and 2016

Assets		**2017**	**2016**
Current assets:			
Cash and cash equivalents	$	28,906,380	40,713,982
Short-term investments		14,734,329	1,295,000
Accounts receivable, net		4,001,782	3,644,131
Pledges receivable, net		4,386,000	7,500,000
Prepaid expenses		811,756	687,978
Total current assets		52,840,247	53,841,091
Noncurrent assets:			
Pledges receivable, net		1,131,778	3,571,429
Property and equipment, net		169,608,175	143,229,131
Total noncurrent assets		170,739,953	146,800,560
Total assets	$	223,580,200	200,641,651
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	14,328,061	13,329,257
Advance deposits		448,320	780,925
Deferred revenue		1,415,788	704,312
Bonds and loans payable, net		6,820,000	—
Total current liabilities		23,012,169	14,814,494
Noncurrent liabilities:			
Deferred revenue		6,084,196	5,368,058
Interest rate swap		152,136	—
Bonds and loans payable, net		57,828,838	45,426,244
Total noncurrent liabilities		64,065,170	50,794,302
Total liabilities		87,077,339	65,608,796
Net assets:			
Without donor restrictions		127,528,497	121,500,682
With donor restrictions		8,974,364	13,532,173
Total net assets		136,502,861	135,032,855
Total liabilities and net assets	$	223,580,200	200,641,651

See accompanying notes to financial statements.

NAVY PIER, INC.

Statements of Activities

Years ended December 31, 2017 and 2016

	2017					2016				
	Without donor restrictions			With donor	Grand	Without donor restrictions			With donor	Grand
	Operating	Non-Operating	Total	restrictions	total	Operating	Non-Operating	Total	restrictions	total
Revenues and support:										
Contributions and grants	$ 2,302,317	607,414	2,909,731	5,402,936	8,312,667	275,200	15,718,544	15,993,744	348,640	16,342,384
Sponsorships	3,339,530	—	3,339,530	—	3,339,530	2,526,153	—	2,526,153	—	2,526,153
In-kind support	557,968	—	557,968	—	557,968	—	—	—	—	—
Pier park amusements	14,279,882	—	14,279,882	—	14,279,882	12,500,769	—	12,500,769	—	12,500,769
Programming events	3,679,591	—	3,679,591	—	3,679,591	4,762,283	—	4,762,283	—	4,762,283
Retail	14,501,644	—	14,501,644	—	14,501,644	14,177,709	—	14,177,709	—	14,177,709
Parking	11,079,804	—	11,079,804	—	11,079,804	11,070,030	—	11,070,030	—	11,070,030
Facility rental	6,698,365	—	6,698,365	—	6,698,365	5,962,418	—	5,962,418	—	5,962,418
Food and beverage	3,169,403	—	3,169,403	—	3,169,403	3,652,660	—	3,652,660	—	3,652,660
Investment income, net	—	20,420	20,420	—	20,420	—	173,320	173,320	—	173,320
Gain on foreign currency	—	—	—	—	—	—	80,048	80,048	—	80,048
Change in value of swap	—	(152,136)	(152,136)	—	(152,136)	—	—	—	—	—
Other	45,301	35,276	80,577	—	80,577	19,884	—	19,884	—	19,884
Net assets released from donor restriction	—	9,960,745	9,960,745	(9,960,745)	—	—	3,971,840	3,971,840	(3,971,840)	—
Total revenues and support	59,653,805	10,471,719	70,125,524	(4,557,809)	65,567,715	54,947,106	19,943,752	74,890,858	(3,623,200)	71,267,658
Expenses:										
Program	45,837,326	9,779,272	55,616,598	—	55,616,598	44,501,629	6,086,932	50,588,561	—	50,588,561
Administration	6,273,942	89,279	6,363,221	—	6,363,221	5,459,163	60,116	5,519,279	—	5,519,279
Fundraising	2,073,251	44,639	2,117,890	—	2,117,890	1,339,997	30,058	1,370,055	—	1,370,055
Total expenses	54,184,519	9,913,190	64,097,709	—	64,097,709	51,300,789	6,177,106	57,477,895	—	57,477,895
Change in net assets before transfers	5,469,286	558,529	6,027,815	(4,557,809)	1,470,006	3,646,317	13,766,646	17,412,963	(3,623,200)	13,789,763
Board-designated transfers	(8,927,943)	8,927,943	—	—	—	(6,761,644)	6,761,644	—	—	—
Change in net assets	$ (3,458,657)	9,486,472	6,027,815	(4,557,809)	1,470,006	(3,115,327)	20,528,290	17,412,963	(3,623,200)	13,789,763
Net assets, beginning of year			121,500,682	13,532,173	135,032,855			104,087,719	17,155,373	121,243,092
Net assets, end of year			$ 127,528,497	8,974,364	136,502,861			121,500,682	13,532,173	135,032,855

See accompanying notes to financial statements.

NAVY PIER, INC.

Statements of Cash Flows

Years ended December 31, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	1,470,006	13,789,763
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
MPEA reimbursement for Framework Plan expenses		—	(15,434,123)
Depreciation		7,704,214	5,516,762
Amortization of debt issuance costs		68,453	54,486
Net investment return		(622)	(146,279)
Unrealized loss on interest rate swap		152,136	—
Unrealized gain on foreign currency derivatives		—	(607,791)
Contributions and grants restricted for capital projects		(11,500,000)	(284,420)
Amortization of discount for pledges receivable		(178,571)	(348,640)
Changes in assets and liabilities:			
Accounts receivable		(357,651)	(352,765)
Pledges receivable		5,732,222	—
Prepaid expenses		(123,778)	59,962
Accounts payable and accrued expenses		998,804	(6,341,283)
Advance deposits		(332,605)	299,184
Deposit – City of Chicago		—	207,750
Deferred revenue		1,427,614	4,841,383
Net cash provided by operating activities		5,060,222	1,253,989
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		14,485,110	11,056,174
Purchases of investments		(27,923,817)	(780,278)
Purchase of property and equipment, including capitalized interest		(34,083,258)	(39,271,980)
Net cash used in investing activities		(47,521,965)	(28,996,084)
Cash flows from financing activities:			
Loan proceeds		23,000,000	19,564,856
Contributions and grants restricted for capital projects		11,500,000	284,420
Bond and loan repayment		(3,750,000)	(750,000)
Debt issuance costs		(95,859)	—
Deposit for Framework Plan from MPEA		—	15,000,000
Net cash provided by financing activities		30,654,141	34,099,276
Net increase (decrease) in cash and cash equivalents		(11,807,602)	6,357,181
Cash and cash equivalents – beginning of year		40,713,982	34,356,801
Cash and cash equivalents – end of year	$	28,906,380	40,713,982
Supplemental disclosure of cash flow information :			
Interest paid, net of amounts capitalized	$	1,168,952	891,261

See accompanying notes to financial statements.

NAVY PIER, INC.

Statements of Functional Expenses

Years ended December 31, 2017 and 2016

	2017				2016			
	Program	**Administrative**	**Fundraising**	**Total**	**Program**	**Administrative**	**Fundraising**	**Total**
Salaries and benefits	$ 10,980,487	3,837,095	903,439	15,721,021	10,028,598	3,188,660	501,790	13,719,048
Contracted services	18,513,935	4,298	116,991	18,635,224	18,155,553	2,425	20,515	18,178,493
Professional fees	3,858,257	1,090,022	309,268	5,257,547	2,264,509	975,476	309,379	3,549,364
Arts, culture and events	2,888,921	—	—	2,888,921	4,263,558	—	—	4,263,558
Advertising and promotions	2,410,915	10,000	242,436	2,663,351	2,446,407	7,500	186,036	2,639,943
Utilities	2,711,522	27,528	13,764	2,752,814	2,679,114	27,199	13,600	2,719,913
Maintenance	1,757,794	330	—	1,758,124	1,354,463	—	34,500	1,388,963
Equipment	276,694	94,849	6,082	377,625	559,235	51,672	3,170	614,077
Supplies	687,014	33,815	6,622	727,451	669,414	24,568	10,918	704,900
Insurance	1,551,508	77,289	7,876	1,636,673	1,409,822	72,218	7,156	1,489,196
Information technology	75,385	689,363	7,077	771,825	47,846	626,004	2,895	676,745
Telecommunications	35,987	156,479	2,125	194,591	76,027	266,617	3,579	346,223
Postage and shipping	35,316	9,077	15,254	59,647	2,653	7,963	849	11,465
Printing	192,758	14,336	34,392	241,486	174,559	15,494	10,658	200,711
Travel and entertainment	135,015	66,497	91,558	293,070	137,360	103,479	94,346	335,185
Training	12,140	29,267	1,692	43,099	16,764	4,262	—	21,026
Credit card and bank fees	335,070	31,477	2,605	369,152	324,278	27,161	1,510	352,949
Dues and subscriptions	37,449	40,539	4,273	82,261	33,472	29,802	3,198	66,472
Miscellaneous	4,407	44,117	89,392	137,916	23,461	28,663	135,898	188,022
In-kind goods and services	322,000	17,563	218,405	557,968	—	—	—	—
Interest	1,137,947	11,553	5,776	1,155,276	433,789	4,404	2,202	440,395
Depreciation and amortization	7,656,077	77,727	38,863	7,772,667	5,487,679	55,712	27,856	5,571,247
	$ 55,616,598	6,363,221	2,117,890	64,097,709	50,588,561	5,519,279	1,370,055	57,477,895

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 **–** net assets without donor restrictions and net assets with donor restrictions. Furthermore, NPI distinguishes net assets without donor restrictions as either operating net assets or nonoperating net assets. Descriptions of the two net asset categories are as follows:

- *Net Assets without Donor Restrictions* –

  Operating **–** include all operating revenues and expenses which are an integral part of NPI's programs and supporting activities, as well as net assets released from donor restrictions to support operating activities. NPI considers operating Navy Pier as its only program.

  Non-Operating **–** include all Board-designated funds, investment returns (not subject to donor restriction), the unrealized balance in the value of the interest rate swap, contributions for capital projects, capitalized property and equipment and its related depreciation, debt service, and expenses related to the physical re-development of Navy Pier.

  Board-Designated Transfers between Operating and Non-Operating Net Assets without Donor Restrictions are to fund NPI's depreciation and debt service requirements.

- *Net Assets with Donor Restrictions* **–** include assets whose use is limited by donor-imposed time and/or purpose restrictions.

(c) Cash and Cash Equivalents

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.

(d) Accounts Receivable

Accounts receivable consist of rents due from the Pier tenants, trade accounts receivable due for NPI's convention and meeting business, amounts due from NPI's parking and foodservice contractors, and an amount due from MPEA as discussed in note 2. A bad debt reserve of approximately $37,000 and $43,000 was recorded as of December 31, 2017 and 2016, 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 securities are measured at fair value in the accompanying statements of financial position, and have maturities within one year. Interest, realized gains and losses on sales of investments, and unrealized gains and losses are reported as investment income.

(g) 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)	7–40 years
Furniture	7 years
Equipment	2–20 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. NPI did not recognize any impairment charges during the years ended December 31, 2017 and 2016.

(Continued)

Total property and equipment, net, is as follows for 2017 and 2016:

		2017	2016
Construction in progress	$	5,456,830	16,540,162
Leasehold improvements		149,286,344	106,167,882
Equipment and other		32,464,974	31,074,549
Total property and equipment		187,208,148	153,782,593
Less accumulated depreciation		(17,599,973)	(10,553,462)
Total property and equipment, net	$	169,608,175	143,229,131

(h) Revenue

Revenue from services is recognized when the related services are provided. Revenue includes tenant rental revenue (retail revenue), parking fee revenue, amusement park and programming event revenue, revenue related to the use of exhibition facilities (facility rental revenue), food and beverage revenue primarily related to facility rental revenue, and sponsorship revenue. Advance collections and deposits related to event revenue are recorded as advance deposits. Advance collections for sponsorship and rental agreements are recorded as deferred revenue. Advance deposits and deferred revenue are reflected as liabilities in the accompanying statements of financial position.

Contributions and programmatic grants, including donations of cash, property, in-kind contributions and unconditional 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.

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 without donor restrictions. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with donor restrictions on use are reported as revenue with donor restrictions; the restrictions are considered to be released at the time such long-lived assets are placed in service.

(i) Expenses by Function

Expenses are reductions in net assets without donor restrictions and are recorded as incurred. Expenses related to the operation of Navy Pier are classified as “program” on the accompanying statements of functional expenses; this may include, but not be limited to, Arts, Culture and Events, maintenance and repairs, advertising and promotions, facility costs, security services. Expenses classified as “administrative” consist of, but are not limited to, general management, accounting, legal, human resources, and information technology. Expenses classified as “fundraising” are costs incurred to generate philanthropic contributions to NPI.

Certain costs are shared by all three functions, including depreciation, interest, and most insurance, and are shared based on approximate square footage associated with staff involved.

(j) Interest Rate Swap

NPI entered into an interest rate swap agreement as part of its interest rate risk management strategy, not for speculation. Although NPI believes the derivative would qualify as a hedge, accounting standards for not-for-profits allow reporting the instrument as a freestanding derivative. NPI records the interest rate swap at fair value.

(k) Pledges Receivable

Pledges receivable represent unconditional promises to give and are reported at fair value by discounting the expected future payments beyond one year at rates ranging from 2.21% to 2.73%. The discount rate used to determine the present value of pledges receivable 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.

Pledges receivable are estimated to be collected as follows at December 31, 2017 and 2016:

		2017	2016
Within one year	$	4,386,000	7,500,000
In one to three years		1,300,000	3,750,000
		5,686,000	11,250,000
Less discount to net present value		(168,222)	(178,571)
	$	5,517,778	11,071,429

(l) Income Taxes

NPI has received a determination letter from the Internal Revenue Service (IRS) 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) Subtopic 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, 2017 and 2016. During 2016 and 2017, NPI was the subject of an examination by the Internal Revenue Service (IRS) for the year ended December 31, 2013. The scope of the examination included a review to ensure all unrelated business income had been properly reported. In 2017, NPI was advised by the IRS that the 2013 return was accepted as filed and that NPI continues to qualify for exemption from federal income tax. NPI is no longer subject to examination by federal, state or local authorities for periods before 2014.

(m) 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.

(n) Adoption of New Accounting Standards

In January 2016, the Financial Accounting Standards Board issued guidance that updates ASC Subtopic 825-10, *Financial Instruments*. During the year ended December 31, 2016, NPI elected to adopt the provision that eliminates the requirement to disclose the fair value of financial instruments carried at amortized cost. Other provisions of the guidance will be adopted in future periods, as allowed by the guidance.

Also during 2017, NPI adopted Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board-designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

As recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of January 1, 2016 follows:

		ASU 2016-14 Classifications		
Net Asset Classifications		**Without donor restrictions**	**With donor restrictions**	**Total net assets**
As previously presented:				
Unrestricted	$	104,087,719	—	104,087,719
Temporarily restricted		—	17,155,373	17,155,373
Net assets, as reclassified	$	104,087,719	17,155,373	121,243,092

(o) Reclassifications

Certain 2016 financial statement line items have been reclassified to conform to the 2017 presentation.

(p) Subsequent Events

NPI has performed an evaluation of subsequent events through June 15, 2018, 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 ending June 30, 2036.
- MPEA provided NPI with $60,000,000 in 2011 and 2012 to be used for implementation of the Framework Plan 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 provided NPI an additional $55,000,000 in 2014 through 2016 to be used for implementation of the Framework Plan as defined in the Third Amendment to the Lease Agreement.
- 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) NPI abandons the premises or (c) 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 $0 from MPEA during the year ended December 31, 2017 and $15,000,000 during the year ended December 31, 2016. As of December 31, 2017 and 2016, NPI had no unspent cash related to the Lease Agreement.

In 2016, NPI recorded a contribution for reimbursement for Framework Plan expenses of $15,434,123. Of this amount, $14,303,968 was spent on leasehold improvements, $164,015 was spent on construction administration expenses related to implementation of the Framework Plan, and $966,140 was spent on fundraising expenses. A refundable landscaping deposit paid to the City of Chicago and charged to Framework Plan spending during 2013 was received in 2016, and was used for other Framework purposes in 2016.

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, 2017 and 2016, NPI has recorded the costs incurred but not yet reimbursed of $909,449 and $732,753, respectively, as an accounts receivable.

(3) Investments

The following table summarizes the types of investments and total return on investments as of and for the years ended December 31, 2017 and 2016:

		2017	2016
Type of investments:			
Domestic municipal bonds	$	1,465,000	—
Foreign fixed-income commercial paper		2,937,889	—
Corporate bonds:			
Domestic fixed-income securities		10,042,365	1,295,000
Foreign fixed-income securities		289,075	—
Total investments – at fair value	$	14,734,329	1,295,000
Return on investments:			
Interest income on investments	$	41,532	73,419
Realized (loss) on sale of investments, net		—	(4,111)
Unrealized (loss) gain on investments, net		(40,910)	76,971
Total return on investments		622	146,279
Interest income on savings accounts		19,798	27,041
Reported as Investment income, net	$	20,420	173,320

(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 and advance deposits are carried at historical cost, which approximates their fair values because of the short-term nature of these instruments. There has been no change in valuation methodologies between 2016 and 2017.

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

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

Fixed maturity investments, including municipal bonds, commercial paper 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.

Interest rate swap is computed using the present value of cash flows based on the notional amount, term, and fixed and variable interest rates contained in the contract. The model prices the instrument at an exit value as if the agreement were terminated at the date of valuation. Significant fair value inputs can be verified and do not involve management judgments (Level 2 inputs). NPI's cash equivalents, investments and interest rate swap are accounted for at fair value on a recurring basis, using the fair value hierarchy as follows:

	December 31, 2017	
	Level 1	Level 2
Cash equivalents	$ —	3,390,167
Investments:		
Domestic municipal bonds	$ 1,465,000	—
Foreign fixed-income commercial paper	2,937,889	—
Corporate bonds:		
Domestic fixed-income securities	10,042,365	—
Foreign fixed-income securities	289,075	—
Total investments – at fair value	$ 14,734,329	—
Liabilities:		
Interest rate swap	$ —	152,136

		December 31, 2016	
		Level 1	Level 2
Cash equivalents	$	—	17,059,785
Investments:			
Domestic fixed-income securities	$	1,295,000	—
Total investments – at fair value	$	1,295,000	—

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 2017 or 2016.

(5) Derivative Financial Instruments

In 2014, NPI entered into a contract to purchase an observation wheel (the OW) in euros. The contract price of €11.9 million was payable in four installments beginning in December 2014 with the final payment made in June 2016. NPI utilized derivative instruments to economically hedge its exposure to potential exchange rate increases of the euro relative to the U. S. dollar for the period the OW payments were to be made. NPI recorded a net derivative gain on foreign currency transaction of $80,048 for the year ended December 31, 2016.

Effective October 1, 2017, NPI entered into an interest rate swap agreement with Fifth Third Bank in order to hedge overall exposure to variable rate debt. NPI has agreed to pay Fifth Third interest at a fixed rate of 2.3% with the counterparty paying NPI a floating rate based on one-month LIBOR. The interest rate swap has an initial notional amount of $15,500,000 which is reduced annually on October 1st by $775,000 and which expires on September 22, 2024.

(6) Liquidity and Available Resources

NPI's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

		December 31, 2017
Cash and cash equivalents	$	28,906,380
Short-term investments		14,734,329
Accounts receivable, net		4,001,782
Pledges receivable, net		4,386,000
Total financial resources available within one year		52,028,491

		December 31, 2017
Less amounts unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	$	(8,148,401)
Debt issuance proceeds for capital improvements		(18,124,496)
Board-designation		(2,017,709)
Total amounts unavailable within one year for general expenditures		(28,290,606)
Total financial assets available to meet cash needs for general expenditures within one year	$	23,737,885

As part of NPI's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, NPI has a committed line of credit of $1,500,000 which it could draw on. Additionally, NPI has Board Designated net assets without donor restrictions that, while NPI does not intend to spend, the amounts could be made available for current operations, if necessary.

(7) Long-Term Debt

Long-term debt outstanding at December 31, 2017 and 2016 consisted of the following:

	Interest rate	Fiscal year maturity		Amount December 31 2017	Amount December 31 2016
Illinois Finance Authority (IFA):					
Series 2014A Bonds [(a)]	2.90 %	2024	$	26,500,000	26,500,000
Series 2014B-R Bonds [(b)]	Variable	2023		19,250,000	19,250,000
Bank Bridge loan [(c)]	Variable	2018		3,750,000	—
Bank Construction loan [(d)]	Variable	2024		15,500,000	—
Total debt				65,000,000	45,750,000
Less deferred issuance costs				(351,162)	(323,756)
Total debt, less deferred issuance costs			$	64,648,838	45,426,244

[(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 were to be used to pay the costs of manufacturing and installing a new Observation Wheel and completing necessary structural improvements to Pier Park. The Series 2014A bonds were interest only through 2017, with principal payments commencing on January 1, 2018, and with a lump-sum payment due 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 were to be used for capital projects subject to Lender approval, including $15.0 million for the construction of a live performance theater. NPI drew $435,144 from Series 2014B bonds in 2014 to fund bond issuance costs with the remaining bond proceeds being drawn during 2016.

The Series 2014B bonds were interest only through 2016, with principal payments commencing in December 2016. In October 2017, the IFA, Fifth Third Bank and NPI entered into the First Amendment to the Bond and Loan Agreement (the First Amendment). The First Amendment issued 2014B-R bonds to replace the prior Series 2014B bonds and the parties agreed to a revised payment schedule and interest rate. Payments on the Series 2014B-R bonds commence on January 1, 2018 and are payable in a lump-sum on January 1, 2023.

In February 2016, under a new lease agreement with Chicago Shakespeare Theater (CST), NPI agreed to fund $15.0 million towards certain core improvements to the existing CST on the Pier. Upon substantial completion in 2017, the improvements funded by NPI became the property of NPI.

(c) In August 2017, NPI and Fifth Third Bank entered into a Bridge Loan Agreement in the amount of $7,500,000 to complete a construction project funded by a grant. A grant installment received in December 2017 of $3,750,000 was applied as a loan repayment and the remaining grant installment due on or before December 2018 is pledged to repay the remaining loan balance.

(d) In September 2017, NPI and Fifth Third Bank entered into a Construction Loan Agreement in the amount of $15,500,000 to complete a renovation construction project. The construction loan will be repaid in installments of $775,000 annually through September 2024 with a lump-sum payment due at maturity on September 22, 2024.

During 2016 and 2017, six amendments were made to the Additional Covenant Agreement under the bond and loan agreement with Fifth Third Bank (ACA). The amendments defined how the Series 2014-B bonds would be drawn, defined the approved capital projects, revised the substantial completion dates for certain projects, allowed the additional indebtedness of the Bridge loan, the Construction loan and the line of credit, and changed certain financial covenants.

During 2017, additional deferred debt issuance costs of $95,859 were incurred related to the Bridge loan and Construction loan. Deferred bond issuance costs had an unamortized balance of $351,162 and $323,756 at December 31, 2017 and 2016, respectively.

All debt and rate management obligations are secured by the general revenue of NPI. The terms of the agreements require NPI to meet specified covenants, including limitations on incurring additional indebtedness and maintaining certain liquidity measures as defined within the agreements.

(Continued)

Required principal payments for bonds and loans are as follows:

		Debt payable
Year(s) ending December 31:		
2018	$	6,820,000
2019		3,081,000
2020		3,091,000
2021		3,100,000
2022		3,110,000
Thereafter		45,798,000
	$	65,000,000

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 during the construction period was capitalized and is being amortized over the life of the asset. The amount of interest capitalized for the year ended December 31, 2016 was $354,269. There was no interest capitalized during 2017.

Interest on the Series 2014B bonds was payable quarterly in arrears through December 31, 2017 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 the date of the First Amendment on October 1, 2017, the floating rate was 1.65% plus 65.01% of the LIBOR interest rate plus 35% of the difference between the Future WAL Swap Rate and 1.29%. Effective October 1, 2017, the floating rate was changed to be 1.982% plus 65.01% of the LIBOR interest rate.

At December 31, 2017 and 2016, the interest rate on the Series 2014B-R and Series 2014B bonds was 2.9535% and 2.2049%, respectively. Interest on borrowings during the construction period was capitalized and is being amortized over the lives of the related assets. The amount of interest capitalized for the years ended December 31, 2017 and December 31, 2016 was $313,187 and $42,111, respectively.

Interest on the Bridge loan is payable monthly in arrears through December 2018 at a floating rate of the LIBOR interest rate plus 1.75%. At December 31, 2017, the interest rate on the Bridge loan was 3.125%.

Interest on the Construction loan is payable quarterly in arrears at a floating rate of the LIBOR interest rate plus 1.85%. In September 2017, NPI and Fifth Third Bank entered into an interest rate swap agreement to fix the interest rate on the Construction loan at 4.15%. Interest on borrowings during the construction period were capitalized will be amortized over the lives of the related assets. The amount of interest capitalized for the year ended December 31, 2017 was $93,038. At December 31, 2017, the stated interest rate on the Construction loan was 3.21069%.

Interest expense for the years ended December 31, 2017 and 2016, net of capitalized interest, was $1,155,276 and $445,575, respectively.

(8) Line of Credit

During 2016, NPI entered into a line of credit arrangement with Fifth Third Bank. The revolving note executed between NPI and Fifth Third had an one-year term that expired on April 20, 2017. On August 8, 2017, NPI entered into a new line of credit arrangement with Fifth Third Bank for one year that expires on August 8, 2018. The note carries a maximum possible balance of $1,500,000 and a variable interest rate of LIBOR plus 1.9%. During the years ended December 31, 2017 and 2016, NPI made no draws on the lines of credit. A fee of 0.25% of the amount available but unused on the line is payable to the lender each quarter. NPI paid $3,375 and $2,063 for these fees during the years ended December 31, 2017 and December 31, 2016, respectively. All other financial covenants are incorporated by reference from the ACA.

(9) 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 IRS. 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 $343,000 to the Plan for 81 eligible employees during the year ended December 31, 2017 and $331,000 to the Plan for 78 eligible employees during the year ended December 31, 2016.

NPI also contributed to eight separate multiemployer pension, retirement, and annuity plans in 2017 and 2016. 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 $955,000 and $909,000 for the years ended December 31, 2017 and 2016, respectively.

(10) Net Assets with Donor Restrictions and Board Designations

All net assets with donor restriction at December 31, 2017 and 2016 are restricted by donors for building projects to support the programmatic transformation of the Pier, or time restriction. Such amounts will be released to net assets without donor restrictions when the long-lived assets are placed in service or at collection of the pledge.

Net assets with donor restrictions as of December 31, 2017 and 2016 are as follows:

		2017	2016
Purpose restricted	$	8,148,401	13,532,173
Time restricted		825,963	—
Total	$	8,974,364	13,532,173

In 2016, NPI entered into an antenna licensing agreement which lasts from 2017 through 2056. Proceeds from the licensing agreement were classified as deferred revenue, and will be amortized over the life of the agreement. The proceeds have been designated by the Board of Directors for the purchase of fixed assets; such amounts are $2,017,709 and $4,048,056 at December 31, 2017 and 2016, respectively.

(11) Related-Party Transactions

MPEA provided and continues to provide certain services to NPI, primarily for contracted security personnel, utilities, and payroll-processing services. Costs for services purchased from the MPEA totaled approximately $3.8 million and $5.5 million for the years ended December 31, 2017 and 2016, respectively. In May 2017, NPI ended the agreement related to security personnel and in October 2017 NPI ended the agreement related to payroll-processing services.

(12) 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.

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.

(13) Construction Commitments

Navy Pier's current construction projects are managed by a general contractor with a signed remaining commitment of approximately $9.9 million as of December 31, 2017, including retainage ranging from 1% to 10%. The construction projects are expected to be completed between May and July 2018.

Under its lease with the Chicago Children's Museum (the Museum), Navy Pier has a construction allowance commitment related to the renovation of the Museum. The remaining commitment as of December 31, 2017 was $1.5 million.