

# The Lincoln Park Zoological Society

*Financial Statements for the  
Year Ended March 31, 2011*

Financial Statements

 Blackman Kallick

# The Lincoln Park Zoological Society

Year Ended March 31, 2011



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## Contents

	<u>Page</u>
Independent Auditor's Report	1
Statements of Financial Position as of March 31, 2011 and 2010	2
Statements of Activities for the Year Ended March 31, 2011, with Comparative Totals for the Year Ended March 31, 2010	3
Statements of Cash Flows for the Years Ended March 31, 2011 and 2010	4
Notes to Financial Statements	5-23

## Independent Auditor's Report

Board of Directors  
The Lincoln Park Zoological Society  
Chicago, Illinois

We have audited the accompanying statement of financial position of **The Lincoln Park Zoological Society** (an Illinois corporation, organized not-for-profit) as of March 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Society's 2010 financial statements and, in our report dated July 21, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **The Lincoln Park Zoological Society** as of March 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

June 28, 2011

# The Lincoln Park Zoological Society

*Year Ended March 31, 2011*



## Financial Statements

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# The Lincoln Park Zoological Society

Statements of Financial Position  
Years Ended March 31, 2011 and 2010



## Assets

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Cash	\$ 736,493	\$ 2,306,537
Investments	70,916,859	64,793,198
Investments - Other	6,546,735	5,541,068
Receivables		
Pledges and grants, net	6,086,524	10,136,427
Other	547,339	757,326
Inventories	346,221	309,323
Other assets	876,646	325,626
Property and equipment, net	<u>1,121,134</u>	<u>989,597</u>
Total Assets	<u><u>\$ 87,177,951</u></u>	<u><u>\$ 85,159,102</u></u>

## Liabilities and Net Assets

### **Liabilities**

Payables		
Accounts payable	\$ 1,332,990	\$ 1,353,168
Annuities payable	101,269	27,261
Accrued expenses		
Construction	-	1,334,658
Other	813,976	838,035
Commercial paper	<u>40,000,000</u>	<u>40,000,000</u>
Total Liabilities	<u>42,248,235</u>	<u>43,553,122</u>

### **Net Assets**

Unrestricted	5,048,204	2,803,555
Temporarily restricted	12,689,319	11,222,316
Permanently restricted	<u>27,192,193</u>	<u>27,580,109</u>

Total Net Assets	<u>44,929,716</u>	<u>41,605,980</u>
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Total Liabilities and Net Assets	<u><u>\$ 87,177,951</u></u>	<u><u>\$ 85,159,102</u></u>
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# The Lincoln Park Zoological Society



Statements of Activities  
Year Ended March 31, 2011 with Comparative Totals for 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2010 Summarized Totals
<b>Revenues and Other Support</b>					
Contributions, grants and development	\$ 5,395,670	\$ 1,657,413	\$ 226,657	\$ 7,279,740	\$ 7,196,626
Events revenue	1,439,465			1,439,465	1,625,435
Facility rental revenue	658,370			658,370	395,983
Chicago Park District subsidy	5,667,500			5,667,500	5,600,000
Membership dues and activities	1,376,053			1,376,053	1,400,881
Visitor services	5,970,732			5,970,732	5,840,109
Investment income	3,905,656	3,363,712		7,269,368	16,282,527
Other income	761,135			761,135	570,549
Net assets released from restrictions	4,079,122	(4,079,122)	-	-	-
<b>Total Revenues and Other Support</b>	<b>29,253,703</b>	<b>942,003</b>	<b>226,657</b>	<b>30,422,363</b>	<b>38,912,110</b>
<b>Expenses</b>					
Buildings and grounds	3,850,372	-	-	3,850,372	3,522,668
Events	1,294,768	-	-	1,294,768	1,387,779
Facility rental	274,342	-	-	274,342	247,052
Construction	3,222,201	-	-	3,222,201	6,748,281
Animal collection and conservation	8,870,021	-	-	8,870,021	8,384,624
Visitor services	2,424,518	-	-	2,424,518	2,278,595
Public education	2,345,582	-	-	2,345,582	2,231,125
Membership	635,321	-	-	635,321	702,015
Administration	2,263,542	-	-	2,263,542	1,754,069
Debt service	399,779	-	-	399,779	446,481
Fundraising and development	1,428,608	-	-	1,428,608	1,360,171
<b>Total Expenses</b>	<b>27,009,054</b>	<b>-</b>	<b>-</b>	<b>27,009,054</b>	<b>29,062,860</b>
<b>Change in Net Assets Before Write-Off of Pledges Receivable</b>	<b>2,244,649</b>	<b>942,003</b>	<b>226,657</b>	<b>3,413,309</b>	<b>9,849,250</b>
<b>Write-Off of Pledges Receivable</b>	<b>-</b>	<b>-</b>	<b>(89,573)</b>	<b>(89,573)</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>2,244,649</b>	<b>942,003</b>	<b>137,084</b>	<b>3,323,736</b>	<b>9,849,250</b>
<b>Transfer of Net Assets from Permanently Restricted to Temporarily Restricted</b>	<b>-</b>	<b>525,000</b>	<b>(525,000)</b>	<b>-</b>	<b>-</b>
<b>Net Assets, Beginning of Year</b>	<b>2,803,555</b>	<b>11,222,316</b>	<b>27,580,109</b>	<b>41,605,980</b>	<b>31,756,730</b>
<b>Net Assets, End of Year</b>	<b>\$ 5,048,204</b>	<b>\$ 12,689,319</b>	<b>\$ 27,192,193</b>	<b>\$ 44,929,716</b>	<b>\$ 41,605,980</b>

# The Lincoln Park Zoological Society

Statements of Cash Flows  
Years Ended March 31, 2011 and 2010



	2011	2010
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 3,323,736	\$ 9,849,250
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Change in unrealized/realized gain on investments	(5,636,693)	(15,271,257)
Contribution of common stock	(1,088,776)	(828,162)
Contribution of property	(235,000)	-
Bad debt	224,294	-
Depreciation and amortization	182,829	159,188
Permanently restricted contributions	(226,657)	(632,064)
(Increase) decrease in		
Receivables	4,471,234	6,302,050
Inventories	(36,898)	101,695
Other assets	(316,020)	88,734
(Decrease) increase in accounts payable and accrued expenses	(1,304,887)	1,117,759
Net Cash (Used in) Provided by Operating Activities	(642,838)	887,193
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(29,869,541)	(12,900,000)
Sale of investments and donated securities	30,020,696	11,770,911
Net (purchases) sales of money market funds	(930,807)	1,482,120
Capital expenditures	(314,366)	(408,156)
Net Cash Used in Investing Activities	(1,094,018)	(55,125)
<b>Net Cash Provided by Financing Activities - Permanently restricted contributions</b>	166,812	572,219
<b>(Decrease) Increase in Cash</b>	(1,570,044)	1,404,287
<b>Cash, Beginning of Year</b>	2,306,537	902,250
<b>Cash, End of Year</b>	\$ 736,493	\$ 2,306,537

Cash payments for interest and related fees were \$384,257 and \$462,779 for 2011 and 2010, respectively.

## Note 1 - Nature of Operations

The Lincoln Park Zoological Society (the Society) was formed to aid in the improvement, maintenance and operation of Lincoln Park Zoological Gardens (the zoo), located in Chicago, Illinois. The zoo site and buildings are owned by the Chicago Park District (the Park District) and are occupied by the Society without charge. The Society provides funding and operational support for building, grounds and exhibition improvements and the development and operation of educational, conservation, research and other operating programs. In addition, the Society operates the visitor services at the zoo.

Effective January 1, 1995, the Park District and the Society entered into a privatization agreement, which gives the Society complete responsibility for the financial and operational management of the zoo. The agreement, which expires on December 31, 2024, provides for the Park District to pay for one half of designated construction, an annual base subsidy of \$5,500,000 and an extra subsidy. The extra subsidy shall provide for the operation of Indian Boundary Zoo and is subject to limitations as described in the agreement.

The agreement also transferred the rights to parking concession income to the Society. Revenues from such concessions are designated for the operation and maintenance of the zoo facilities and related capital expenditures.

## Note 2 - Summary of Significant Accounting Policies

### Cash

The Society maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant credit risk on cash.

### Basis of Presentation

Classification of Net Assets - The Society's net assets have been grouped into the following three classes:

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted - Net assets whose use by the Society is subject to donor-imposed stipulations that can be fulfilled by actions of the Society pursuant to those stipulations or that expire by the passage of time.

Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the interest and dividends earned on these assets. Such assets primarily include the Society's permanent endowment funds.

## Note 2 - Summary of Significant Accounting Policies

### Basis of Presentation (Continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. When a donor-imposed restriction expires (i.e., when a stipulated time restriction ends or the purpose of the restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

### Revenue and Support

Cash contributions are recognized in the period received. Pledges, including grants, are recognized in the period pledged. Conditional pledges are recorded when the donor stipulations are substantially met. Unconditional pledges are recognized as revenue when the donor's commitment is received. Unconditional pledges expected to be received over more than one year are recorded by the Society as pledges and grants receivable at fair value. An allowance for uncollectible pledges and grants receivable is provided based on management's judgment considering factors such as relationship with donor, prior collection history and type of contribution. Pledges of noncash assets are recorded at their fair values.

Visitor Services revenue includes daily food and retail operations, as well as parking. Revenue is recognized for these activities when the service is delivered.

### Income Taxes

The Society is exempt from federal income tax on related income under 501(c)(3) of the Internal Revenue Code. The Society has received a favorable determination letter indicating that it is qualified under Section 501(c)(3) of the Internal Revenue Code.

The Society's application of accounting principles generally accepted in the United States of America (GAAPUSA) regarding uncertain tax positions had no effect on its financial position as management believes the Society has no material unrecognized income tax benefits. The Society would account for any potential interest or penalties related to possible future liabilities for unrecognized income tax benefits as income tax expense. The Society is no longer subject to examination by tax authorities for federal, state or local income taxes for periods before 2008.

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### Contributed Services

The Society records various types of in-kind support including professional services and supplies. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received.

A substantial number of volunteers have made significant contributions of their time that do not meet the two criteria described above. Accordingly, the value of this donated time is not reflected in the financial statements.

#### Fair Value Measurements

Effective April 1, 2010, the Society adopted new guidance that requires the Society to report significant transfers between Level 1 and Level 2 and the reasons for those transfers, as well as disclosing the reasons for transfers in or out of Level 3. Additionally, the guidance requires the Society to clarify existing disclosure requirements about the level of disaggregation and inputs and valuation techniques. The adoption of this guidance did not have an impact on the Society's financial statements, other than expanded disclosures.

The new guidance also requires the reconciliation of changes in Level 3 fair value measurements to present purchases, sales and settlements separately on a gross basis rather than as a net amount, effective for fiscal years beginning after December 15, 2010. The Society does not expect the adoption of the guidance for Level 3 activity to have a significant impact on its financial statements or disclosures.

In 2010, the Society adopted the guidance for nonrecurring fair value measurements of nonfinancial assets and liabilities, which guidance had been previously deferred. The adoption of this guidance had no material effect on the Society's financial condition or results of operations, but did require additional disclosures relating to these nonfinancial assets and liabilities.

#### Investments

The Society's investments are reported at fair value. Investment income, including net realized and unrealized gains, is reflected in the statements of activities as an increase in net assets. Interest and dividend income is recorded on the accrual basis.

The Society's investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and could materially affect the amounts reported in the statements of financial position.

Investments – other includes amounts in interest bearing cash accounts and amounts that were in transit to be invested or redeemed on April 1, 2011.

### Note 2 - Summary of Significant Accounting Policies (Continued)

#### Endowment

GAAPUSA addresses the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA was enacted in Illinois effective June 30, 2009. A key component of UPMIFA is a requirement to clarify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

#### Inventories

Merchandise and food inventories are valued at the lower of first-in, first-out (FIFO) cost or market value.

#### Animal Collection

In connection with the privatization agreement, ownership of the zoo's animal collection was transferred to the Society. The Society has established a policy of not capitalizing the animal collection. No gains or losses regarding collection transactions are recognized in the financial statements. All expenses regarding collection transactions are reflected in the accompanying statements of activities.

#### Property and Equipment

Property and equipment consists of building improvements, equipment and facilities, software and furniture and office equipment, which are stated at cost. Donated property is recorded at fair market value when received. Depreciation and amortization are computed over the estimated useful lives of the assets as indicated in the following table using the straight-line method. The Society's policy is to capitalize all purchases of property and equipment over \$5,000 with an estimated useful life of three years.

	<u>Years</u>
Building improvements	3-32
Equipment and facilities	3-10
Software	3
Furniture and office equipment	7

#### Use of Estimates

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

## Note 2 - Summary of Significant Accounting Policies (Continued)

### Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAPUSA. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended March 31, 2010, from which the summarized information was derived.

### Subsequent Events

The Society has evaluated subsequent events through June 28, 2011, the date the financial statements were issued, and July 21, 2010 with respect to the comparative 2010 financial statements.

## Note 3 - Fair Value Measurements

GAAPUSA defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. GAAPUSA describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. GAAPUSA does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Financial assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs to the valuation technique used:

- Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 - Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The Society currently uses no Level 3 inputs.

### Note 3 - Fair Value Measurements (Continued)

The following tables set forth by level within the fair value hierarchy the Society's assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2011 and 2010. As required by GAAPUSA, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Society's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect their placement within the fair value hierarchy levels.

Description	Fair Values March 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Money Market Funds	\$ 1,809,034	\$ 1,809,034	\$ -	\$ -
Western Asset Intermediate Bond Fund	2,993,943	2,993,943	-	-
Templeton Foreign Small Company Fund	2,131,960	2,131,960	-	-
PIMCO Low Duration - Bond Fund	2,009,625	2,009,625	-	-
PIMCO Emerging Markets - Bond Fund	2,058,432	2,058,432	-	-
Artisan Emerging Markets Fund	2,358,253	2,358,253	-	-
<b>Equity Mutual Funds</b>				
Small Cap	2,273,543	2,273,543	-	-
International Stock Fund	4,270,437	4,270,437	-	-
Other	10,150	10,150	-	-
Collective Trusts - Equity	6,986,753	-	6,986,753	-
Hedge Funds	24,243,739	-	24,243,739	-
Bank Common Trust Funds	19,770,990	-	19,770,990	-
	<b>\$ 70,916,859</b>	<b>\$ 19,915,377</b>	<b>\$ 51,001,482</b>	<b>\$ -</b>

### Note 3 - Fair Value Measurements (Continued)

Description	Fair Values March 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Money Market Funds	\$ 1,883,894	\$ 1,883,894	\$ -	\$ -
Western Asset Intermediate Bond Fund	3,573,094	3,573,094	-	-
PIMCO Low Duration - Bond Fund	2,009,625	2,009,625	-	-
<b>Equity Mutual Funds</b>				
Small Cap	3,218,158	3,218,158	-	-
International Stock Fund	3,852,842	3,852,842	-	-
Other	7,282	7,282	-	-
Collective Trusts - Equity	9,992,112	-	9,992,112	-
Hedge Funds	20,557,439	-	20,557,439	-
Bank Common Trust Funds	19,698,752	-	19,698,752	-
	<u>\$ 64,793,198</u>	<u>\$ 14,544,895</u>	<u>\$ 50,248,303</u>	<u>\$ -</u>

#### Level 1 Inputs

Estimated fair values for the Society's money market funds, Western Asset intermediate bond fund, Templeton Foreign Small Company Fund, PIMCO Low Duration bond fund, PIMCO Emerging Markets bond fund, Artisan Emerging Markets fund, small cap equity mutual funds, international stock fund and other equity mutual funds were based on quoted market prices.

## Note 3 - Fair Value Measurements (Continued)

### Level 2 Inputs

Investments in bank common trust funds and collective trusts are highly liquid since the common and collective trust funds invest mostly in marketable securities. As a result, the estimated fair value of the bank common trust funds and collective trusts is based primarily on observable market inputs and does not require significant judgment by the Society's management in the assessment of fair value. The fair value of investments in bank common trust funds and collective trusts is based on their net asset values, as these funds do not have a readily determinable fair value (as defined by GAAPUSA).

The estimated fair values for the Hedge Funds were based on net asset value per share of the funds.

	Fair Value as of March 31, 2011	Unfunded Commitments	Redemption Frequency (if currently Eligible)	Redemption Notice Period
Diversified International equity collective trust (a) Hedge Funds	\$ 6,986,753	None	Monthly	30 Days
Equity Long/Short hedge funds (b)	11,449,063	None	Quarterly	30-60 Days
Relative Value hedge funds (c)	3,322,593	None	Quarterly	90 Days
Multi-strategy hedge funds (d)	3,329,973	None	Quarterly	30 Days
Event Driven Manager hedge funds (e)	6,142,110	None	Quarterly	30-33 Days
Bank Common Trust Funds (h)	<u>19,770,990</u>	N/A	Daily	N/A
	<u><b>\$ 51,001,482</b></u>			

	Fair Value as of March 31, 2010	Unfunded Commitments	Redemption Frequency (if currently Eligible)	Redemption Notice Period
Diversified International equity collective trust (a) Hedge Funds	\$ 7,297,216	None	Monthly	30 Days
Equity Long/Short hedge funds (b)	8,709,324	None	Quarterly	30-60 Days
Relative Value hedge funds (c)	2,994,508	None	Quarterly	90 Days
Multi-strategy hedge funds (d)	3,024,169	None	Quarterly	30 Days
Event Driven Manager hedge funds (e)	3,076,614	None	Quarterly	30-33 Days
Small Cap Domestic Equity Collective trust (f)	2,694,896	None	Quarterly	30 Days
Market Neutral Equity Long/Short hedge funds (g)	2,752,824	None	Quarterly	60 Days
Bank Common Trust Funds (h)	<u>19,698,752</u>	N/A	Daily	N/A
	<u><b>\$ 50,248,303</b></u>			

## Note 3 - Fair Value Measurements

### Level 2 Inputs (Continued)

- a. **Diversified International Equity:** These managers will typically invest at least 80% of equities outside the U.S., with funds invested over a broad array of countries. These managers use fundamental and quantitative analysis to find undervalued and attractive international opportunities. These managers will hedge currency exposure within the portfolio based on their point of view regarding the appreciation or depreciation of specific currencies with the portfolio.
- b. **Equity Long/Short:** These managers typically maintain portfolios with exposure between a 100-160% net long and 30-70% net short. The securities held in the portfolio will vary along the market capitalization spectrum with a bias to large cap companies. These investment managers will invest in global equities, typically with a North American bias in the portfolio. All of these portfolio will maintain exposure to credit when attractive opportunities available. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors.
- c. **Relative Value:** This manager typically maintains a portfolio with exposure between a 200-250% net long and 165-250% net short. The manager will typically have global gross exposures of approximately 55% North America, 25% Europe and 7% Asia, and 13% Emerging Markets. The investment manager maintains positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk adjusted spread between these instruments represents an attractive opportunity for the investment manager.
- d. **Multi Strategy:** This manager typically maintains a portfolio with exposure between a 75-115% net long and 50-75% net short. The manager will typically have global gross exposures of approximately 55% North America, 30% Europe and 15% Asia. This Investment Manager maintains exposures in a number of different strategies. These strategies will include Equity Long/Short, Distressed and Structured Credit, Convertible/Capital Arbitrage and Merger Arbitrage. Exposures to each of these strategies will vary depending on the investment manager's outlook and opportunity set.
- e. **Event Driven Manager:** This manager typically maintains a portfolio with exposure between 90-115% net long and 60-100% net short. The manager will usually have global gross exposures of approximately 50% U.S., 25% Europe and 25% Asia, and a small allocation to Latin America at times. The positions in the portfolio will typically be involved in corporate transactions including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or small allocations to private equity. Security tapes can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities.

## Note 3 - Fair Value Measurements

### Level 2 Inputs (Continued)

- f. **Small Cap Domestic Equity:** The manager will invest in companies that have a market capitalization typically under \$1.5 billion. The manager's goal is to maximize capital appreciation through investing in small-capitalization stocks that are typically selling at 30% discounts. The fund will typically hold between 40-70 stocks. The fund will not short stocks and therefore will have a net exposure of 100% at all times.
- g. **Market Neutral Equity Long/Short:** The investment manager maintains a net exposure in the portfolio that with a range of -10% to 15%. The manager will typically have global gross exposures of approximately 75% North America, 10% Europe and 15% Asia. The securities held in the portfolio will vary along the market capitalization spectrum with a bias to large cap companies. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques.
- h. **Bank Common Trust Funds:** The bank common trust funds, which are held at The Northern Trust Company, are described below.

NTGI-QM Common Daily S&P 500 Equity Index Fund - Lending: The primary objective of this fund is to approximate the risk and return characteristics of the S&P 500 index. This index is commonly used to represent the large cap segment of the U.S. equity market. This fund may participate in securities lending.

The bank common trust funds, which are held at JP Morgan Chase, are described below.

Intermediate Fixed Income (JPMorgan): This investment manager uses a bottom-up value-oriented approach to selecting fixed income securities. The fund will have an average maturity between 4 to 6 years. The fund's duration will usually be within 10% of Barclays Intermediate Government/Credit Index. Sector allocations will generally fall in the following ranges: Treasuries 15-40%, Corporate/Asset Backed 15-40%, and Mortgage Backed/Agency 40-60%. The manager will only invest in investment grade securities at the time of purchase.

## Note 4 - Investments

Investments as of March 31, 2011 and 2010 were as follows:

	2011	2010
Money Market Funds		
Diversified Assets - Money market	\$ 1,625,778	\$ 1,716,237
Other	183,256	167,657
Short- and Intermediate-Term Government Bonds		
Western Asset Intermediate Bond Fund	2,993,943	3,573,094
Templeton Foreign Small Company Fund	2,131,960	-
PIMCO Low Duration - Bond Fund	2,009,625	2,009,625
PIMCO Emerging Markets - Bond Fund	2,058,432	-
Artisan Emerging Markets Fund	2,358,253	-
Equity Mutual Funds	6,554,130	7,078,282
Collective Trusts - Equity	6,986,753	9,992,112
Hedge Funds	24,243,739	20,557,439
Bank Common Trust Funds		
Northern Trust S&P 500	14,698,135	5,561,043
JPMorgan Investment Bond Fund	5,072,855	14,137,709
	<u>\$ 70,916,859</u>	<u>\$ 64,793,198</u>
Total Investments at Market		
	<u>\$ 65,670,398</u>	<u>\$ 66,046,478</u>

The components of investment income and gains/losses on investments for the years ended March 31, 2011 and 2010 are as follows:

	2011	2010
Unrestricted		
Interest and dividends	\$ 908,050	\$ 542,389
Realized gains	223,039	39,590
Change in unrealized gains	2,774,567	9,883,609
	<u>3,905,656</u>	<u>10,465,588</u>
Subtotal		
	<u>3,905,656</u>	<u>10,465,588</u>
Temporarily Restricted		
Interest and dividends	724,625	468,882
Realized gains	198,707	65,009
Change in unrealized gains	2,440,380	5,283,048
	<u>3,363,712</u>	<u>5,816,939</u>
Subtotal		
	<u>3,363,712</u>	<u>5,816,939</u>
Total	<u>\$ 7,269,368</u>	<u>\$ 16,282,527</u>

## Note 5 - Pledges and Grants Receivable

Pledges and grants receivable as of March 31 are expected to be collected in the following periods:

	<u>2011</u>	<u>2010</u>
Pledges and grants receivable		
Within one year	\$ 2,884,722	\$ 5,684,757
One to five years	3,352,274	4,678,710
Five to nine years	<u>175,000</u>	<u>225,000</u>
	6,411,996	10,588,467
Less discounts to fair value	<u>(325,472)</u>	<u>(452,040)</u>
Net Pledges and Grants Receivable	<u><u>\$ 6,086,524</u></u>	<u><u>\$ 10,136,427</u></u>

Pledges and grants receivable are adjusted to fair value using discount rates between .96% and 5.83%.

## Note 6 - Property and Equipment

The components of property and equipment as of March 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Building improvements	\$ 1,410,064	\$ 1,231,992
Equipment and facilities	717,821	762,752
Software	-	178,917
Furniture and office equipment	<u>57,567</u>	<u>56,287</u>
	2,185,452	2,229,948
Accumulated depreciation and amortization	<u>(1,064,318)</u>	<u>(1,240,351)</u>
	<u><u>\$ 1,121,134</u></u>	<u><u>\$ 989,597</u></u>

### Note 7 - Commercial Paper

In connection with the Commercial Paper Revenue Notes Pooled Financing Program of the Illinois Educational Facilities Authority (the Authority), \$23,300,000 was made available to the Society pursuant to the terms and provisions of the security agreement under a Trust Indenture (the Indenture), dated November 1, 1995, between the Authority and JPMorgan Chase & Company (JPMorgan), as trustee (the Trustee). In connection therewith, the Society issued a promissory note, dated November 30, 1995, with the principal amount not to exceed \$20,000,000 at any one time outstanding under the security agreement. An additional \$20,000,000 was made available to the Society pursuant to the terms and provisions of the amended security agreement. In connection therewith, the Society issued a promissory note for \$10,000,000, dated May 2, 2002, and an additional note for \$10,000,000 on December 18, 2003. The total principal amount of all such notes is not to exceed \$40,000,000 outstanding at any one time under the agreement. Concurrently with the issuance of the notes, the Society entered into a letter of credit agreement (LOC) issued by The Northern Trust Company pursuant to the terms of the reimbursement agreement in the amount of \$41,000,000. The Society is subject to certain covenants relative to, among other things, operating performance measures. The LOC secures the payment of the principal and certain interest payments until November 30, 2011, when it is subject to renegotiation. The LOC is subject to a .45% annual fee. Subsequent to fiscal year-end, the LOC was extended through November 30, 2014. The new agreement further reduced the LOC annual fee from .45% to .40% effective on December 1, 2011.

On November 1, 1995, \$9,000,000 was issued. The proceeds were primarily used to (a) finance, including capitalized interest, the acquisition, construction, renovation and equipping of certain cultural facilities owned or operated by the Society, (b) pay a portion of the interest on the notes and (c) pay certain costs related to the issuance of the notes and the borrowing by the Society. Pursuant to the promissory note, the principal payment of \$9,000,000 is due on November 1, 2025.

On June 30, 1997, an additional \$4,935,000 was issued. The proceeds were used to (a) finance, including capitalized interest, the acquisition, construction, renovation and equipping of certain cultural facilities owned or operated by the Society, (b) pay a portion of the interest on the notes and (c) pay certain costs related to the issuance of the notes and the borrowing by the Society. Pursuant to the promissory note, the principal of \$4,935,000 is due on June 1, 2027.

On November 17, 1998, an additional \$6,065,000 was issued. The proceeds were used to (a) finance, including capitalized interest, the construction, renovation and equipping of certain cultural facilities owned or operated by the Society, (b) pay a portion of the interest on the notes and (c) pay certain costs related to the issuance of the notes and the borrowing by the Society. Pursuant to the promissory note, the principal of \$6,065,000 is due on November 1, 2030.

On May 2, 2002, an additional \$10,000,000 was issued. The proceeds were used to (a) finance, including capitalized interest, the construction, renovation and equipping of certain cultural facilities owned or operated by the Society, (b) pay a portion of the interest on the notes and (c) pay certain costs related to the issuance of the notes and the borrowing by the Society. Pursuant to the promissory note, the principal of \$10,000,000 is due on May 1, 2032.

## Note 7 - Commercial Paper (Continued)

On December 18, 2003, an additional \$10,000,000 was issued. The proceeds were used to (a) finance, including capitalized interest, the acquisition, construction, renovation and equipping of certain cultural facilities owned or operated by the Society, (b) pay a portion of the interest on the notes and (c) pay certain costs related to the issuance of the notes and the borrowing by the Society. Pursuant to the promissory note, the principal of \$10,000,000 is due on December 1, 2033.

The interest rates on the notes are variable and are determined by JPMorgan Chase & Company (JPMorgan) as the re-marketing agent and are defined as tax-exempt rates equal to the lowest rates, which in the judgment of JPMorgan, would enable the notes to be re-marketed at par plus any accrued interest on the date of issuance of such notes, all in accordance with the terms of the Indenture. The interest rate on the notes issued as of March 31, 2011 ranged from 0.18% to 0.35%. Interest expense for the years ended March 31, 2011 and 2010 was \$399,779 and \$446,481, respectively.

Based on the weekly remarketing of the interest rates, the cost of the debt outstanding is its estimated fair value as of March 31, 2011 and 2010.

## Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Capital expenditures	\$ 525,000	\$ -
Grant programs	<u>12,164,319</u>	<u>11,222,316</u>
	<u><b>\$ 12,689,319</b></u>	<u><b>\$ 11,222,316</b></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes:

	<u>2011</u>	<u>2010</u>
Grant expenditures	<u><b>\$ 4,079,122</b></u>	<u><b>\$ 8,405,650</b></u>

## Note 9 - Permanently Restricted Net Assets

Permanently restricted net assets are restricted to the following:

	<u>2011</u>	<u>2010</u>
Investments in perpetuity, the income from which is expendable to support		
Conservation programs	\$ 7,625,847	\$ 7,625,847
Education and research programs	<u>19,566,346</u>	<u>19,954,262</u>
Total Permanently Restricted Net Assets	<u><u>\$ 27,192,193</u></u>	<u><u>\$ 27,580,109</u></u>

## Note 10 - Endowments

The Society's endowment consists of 17 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds only. As required by GAAPUSA, net assets associated with endowment funds are classified and reported based on existences or absences of donor-imposed restrictions.

### Interpretation of Relevant Law

The Board of Directors of the Society has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purpose of the Society and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Society
- (7) The investment policies of the Society

## Note 10 - Endowments (Continued)

### Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that grows the endowment over time while assuming a moderate level of investment risk. The Society expects its endowment funds, over time, to provide an annual real return of 5%, net of inflation and expenses. Actual returns in any given year may vary from this amount.

### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Society has a policy of appropriating for distribution each year up to 4% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of 5% annually. This is consistent with the Society's objective to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of March 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	<u>\$ -</u>	<u>\$ 8,109,079</u>	<u>\$ 27,192,193</u>	<u>\$ 35,301,272</u>

**Note 10 - Endowments**

Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)

Changes in endowment net assets for the year ended March 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 5,724,501	\$ 27,580,109	\$ 33,304,610
Investment return				
Investment income	-	724,625	-	724,625
Net appreciation (realized and unrealized)	-	2,639,087	-	2,639,087
Total Investment Return	-	3,363,712	-	3,363,712
Contributions	-	-	226,657	226,657
Write-off of pledges receivable	-	-	(89,573)	(89,573)
Transfer of net assets from permanently restricted to temporarily restricted	-	-	(525,000)	(525,000)
Appropriation of endowment assets for expenditure	-	(979,134)	-	(979,134)
	<u>\$ -</u>	<u>\$ 8,109,079</u>	<u>\$ 27,192,193</u>	<u>\$ 35,301,272</u>

Endowment net asset composition by type of fund as of March 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	<u>\$ -</u>	<u>\$ 5,724,501</u>	<u>\$ 27,580,109</u>	<u>\$ 33,304,610</u>

## Note 10 - Endowments

### Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)

Changes in endowment net assets for the year ended March 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 227,219	\$ 27,197,263	\$ 27,424,482
Investment return				
Investment income	-	468,882	-	468,882
Net appreciation (realized and unrealized)	-	5,348,057	-	5,348,057
Total Investment Return	-	5,816,939	-	5,816,939
Contributions	-	-	632,064	632,064
Appropriation of endowment assets for expenditure	-	-	(249,218)	(249,218)
	-	(319,657)	-	(319,657)
	<u>\$ -</u>	<u>\$ 5,724,501</u>	<u>\$ 27,580,109</u>	<u>\$ 33,304,610</u>

### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

## Note 11 - Pension Plan

The Society has a defined contribution employee retirement program under which it makes contributions equal to 3% of the eligible participant's salary and also matches participant contributions up to an additional 3% of the participant's salary. The Society's contribution for the fiscal years ended March 31, 2011 and 2010 was \$428,618 and \$401,228, respectively.

## **Note 12 - Other Cash Flow Information**

During the years ended March 31, 2011 and 2010, pledged receivables of \$375,793 and \$371,380, respectively, were paid by the donation of common stock, which the Society sold as soon as was practical.

## **Note 13 - Net Asset Transfer**

During the year ended March 31, 2011, the Society transferred \$525,000 of net assets from permanently restricted to temporarily restricted based on the donor's wishes. The funds will be used for capital improvements.