The Lincoln Park Zoological Society

Financial Report

March 31, 2018

Contents

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Independent Auditor's Report

To the Board of Trustees
The Lincoln Park Zoological Society

We have audited the accompanying financial statements of The Lincoln Park Zoological Society (an Illinois corporation and an organized not-for-profit) (the "Society"), which comprise the statement of financial position as of March 31, 2018 and 2017 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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 The Lincoln Park Zoological Society as of March 31, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

June 13, 2018

Statement of Financial Position

March 31, 2018 and 2017

	2018	2017
Assets		
Cash	$ 14,485,061	$ 5,889,471
Investments (Note 3)	127,940,608	116,489,974
Investments - Other	5,250,627	5,310,547
Receivables:		
Pledges and grants - Net (Note 5)	26,747,284	30,037,040
Other	50,821	92,425
Inventories	445,260	659,171
Other assets	445,611	411,249
Property and equipment - Net (Note 6)	2,167,922	1,881,314
Total assets	**$ 177,533,194**	**$ 160,771,191**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 2,295,754	$ 3,064,013
Annuities payable	353,483	428,239
Accrued compensation	1,868,125	1,196,522
Deferred revenue	657,313	946,518
Accrued expenses - Other	382,013	406,239
Bonds payable - Net of issuance costs (Note 8)	70,017,700	-
Commercial paper (Note 7)	-	70,000,000
Total liabilities	75,574,388	76,041,531
Net Assets		
Unrestricted	31,927,415	24,358,311
Temporarily restricted	36,311,251	26,748,830
Permanently restricted	33,720,140	33,622,519
Total net assets	101,958,806	84,729,660
Total liabilities and net assets	**$ 177,533,194**	**$ 160,771,191**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended March 31, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support								
Contributions, grants, and development	$ 8,505,966	$ 13,712,075	$ 97,621	$ 22,315,662	$ 9,386,514	$ 9,521,611	$ 46,243	$ 18,954,368
Visitor services	7,603,779	-	-	7,603,779	7,324,558	-	-	7,324,558
Chicago Park District subsidy	5,590,000	-	-	5,590,000	5,590,000	-	-	5,590,000
Event revenue	3,328,799	-	-	3,328,799	3,003,521	-	-	3,003,521
Membership dues and activities	1,367,994	-	-	1,367,994	1,399,143	-	-	1,399,143
Facility rental revenue	948,194	-	-	948,194	960,537	-	-	960,537
Other income	633,351	-	-	633,351	1,059,705	-	-	1,059,705
Investment income (Note 4)	7,088,234	4,773,884	-	11,862,118	7,336,077	5,265,301	-	12,601,378
Net assets released from restrictions	8,923,538	(8,923,538)	-	-	8,255,241	(8,255,241)	-	-
Total revenue, gains, and other support	43,989,855	9,562,421	97,621	53,649,897	44,315,296	6,531,671	46,243	50,893,210
Expenses								
Program services:								
Animal collection and conservation	10,429,645	-	-	10,429,645	10,497,807	-	-	10,497,807
Public education	5,086,379	-	-	5,086,379	5,258,291	-	-	5,258,291
Membership	574,524	-	-	574,524	652,046	-	-	652,046
Visitor services	2,434,364	-	-	2,434,364	2,396,946	-	-	2,396,946
Events	2,020,822	-	-	2,020,822	1,889,713	-	-	1,889,713
Facility rental	12,146	-	-	12,146	58,793	-	-	58,793
Buildings and grounds	5,138,094	-	-	5,138,094	4,525,565	-	-	4,525,565
Construction	4,007,288	-	-	4,007,288	13,496,614	-	-	13,496,614
Total program services expense	29,703,262	-	-	29,703,262	38,775,775	-	-	38,775,775
Support services:								
Administration	3,287,243	-	-	3,287,243	2,821,649	-	-	2,821,649
Fundraising and development	2,129,183	-	-	2,129,183	2,116,788	-	-	2,116,788
Debt service	1,301,063	-	-	1,301,063	782,526	-	-	782,526
Total support services	6,717,489	-	-	6,717,489	5,720,963	-	-	5,720,963
Total expenses	36,420,751	-	-	36,420,751	44,496,738	-	-	44,496,738
Increase (Decrease) in Net Assets	7,569,104	9,562,421	97,621	17,229,146	(181,442)	6,531,671	46,243	6,396,472
Net Assets - Beginning of year	24,358,311	26,748,830	33,622,519	84,729,660	24,539,753	20,217,159	33,576,276	78,333,188
Net Assets - End of year	**$ 31,927,415**	**$ 36,311,251**	**$ 33,720,140**	**$ 101,958,806**	**$ 24,358,311**	**$ 26,748,830**	**$ 33,622,519**	**$ 84,729,660**

See notes to financial statements.

Statement of Cash Flows

Years Ended March 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	$ 17,229,146	$ 6,396,472
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Realized and unrealized gain on investments	(10,239,124)	(11,263,391)
Bad debt expense	-	668,105
Depreciation	294,907	299,837
Amortization of debt issuance costs	17,700	-
Permanently restricted contributions	(97,621)	(46,243)
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	2,231,360	(194,192)
Inventories	213,911	(307,796)
Other assets	(34,362)	(9,658)
Accounts payable and accrued expenses	(120,882)	1,134,556
Annuity payable	(74,756)	124,206
Deferred revenue	(289,205)	5,233
Net cash provided by (used in) operating activities	9,131,074	(3,192,871)
Cash Flows from Investing Activities		
Purchases of investments	(10,862,825)	(9,647,899)
Sale of investments	9,651,315	2,695,404
Purchases of investments - Other	-	(5,391,676)
Sale of investments - Other	59,920	8,783,597
Capital expenditures	(581,515)	(521,544)
Net cash used in investing activities	(1,733,105)	(4,082,118)
Cash Flows from Financing Activities		
Permanently restricted contributions	1,197,621	246,243
Issuance of commercial paper	-	2,048,911
Payment of commercial paper	(70,000,000)	-
Issuance of bonds	70,354,000	-
Bond issuance costs	(354,000)	-
Net cash provided by financing activities	1,197,621	2,295,154
Net Increase (Decrease) in Cash	8,595,590	(4,979,835)
Cash - Beginning of year	5,889,471	10,869,306
Cash - End of year	**$ 14,485,061**	**$ 5,889,471**
Supplemental Cash Flow Information - Cash paid for interest and related fees	$ 1,011,635	$ 788,976

See notes to financial statements.

Note 1 - Nature of Business

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's 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 an annual base subsidy of $5,590,000.

The agreement also transferred the rights to parking concession income to the Society. Revenue from such concessions is designated for the operation and maintenance of the Zoo's facilities and related capital expenditures.

Note 2 - Significant Accounting Policies

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 trustees 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 investment income earned on these assets. Such assets primarily include the Society's permanent endowment funds.

Revenue is reported as an increase 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 statement of activities and changes in net assets 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

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Facility rental and visitor services revenue, which includes daily food and retail operations, as well as parking, net of taxes, is recognized for these activities when the service is delivered. Revenue from event revenue includes income from shows and private and special events and is recognized when services are provided.

Note 2 - Significant Accounting Policies (Continued)

Chicago Park District Subsidy

Revenue from the Society's allocable share of the tax levy administered by the Chicago Park District is recorded when collected.

Tax Status

The Society is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Society and recognize a tax liability if the Society has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities.

Pledges Receivable

Pledges receivable are stated at the present value of the expected future cash flows; discounts are amortized to contribution revenue consistent with donor restrictions. An allowance for doubtful pledges receivable is provided based upon management's judgement, including such factors as prior collection history, type of contribution, and nature of the fundraising activity. No allowance was deemed necessary at March 31, 2018 and 2017.

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, (b) require specialized skills, which 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 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.

Cash

The Society maintains its cash for operations 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.

Investments

The Society's investments are reported at fair value. Investment income, including net realized and unrealized gains, is reflected in the statement of activities and changes in net assets 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 statement of financial position.

Investments - Other

The balance includes nonoperating amounts in interest-bearing cash accounts at March 31, 2018 and 2017.

Inventories

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

Note 2 - Significant Accounting Policies (Continued)

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 statement of activities and changes in net assets.

Property and Equipment

Property and equipment consist of building improvements, equipment and facilities, and furniture and office equipment, which are stated at cost. Donated property is recorded at fair value when received. Depreciation is computed over the estimated useful lives of the assets, as indicated in Note 6, using the straight-line method. The Society's policy is to capitalize all purchases of property and equipment over $10,000 with an estimated useful life of three years or more. Major construction projects are expensed by the Society as a result of its agreement with the Chicago Park District.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 13, 2018, which is the date the financial statements were available to be issued.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Society's year ending March 31, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Society plans to apply the standard using the modified retrospective method. During management's evaluation of the various revenue contracts, management determined contracts related to grants and sponsorships may have a significant impact on the timing of recognizing revenue. Additionally, there will be new disclosures related to revenue from contracts with customers.

Note 2 - Significant Accounting Policies (Continued)

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Society, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Society's year ending March 31, 2019 and thereafter and must be applied on a retrospective basis. The Society has determined that the standard will have an impact on its financial statements, specifically on the classification of net assets, the addition of the statement of functional expenses, and the addition of liquidity and availability disclosures. The Society is currently gathering the appropriate information to implement these changes in a timely manner.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Society's assets measured at fair value on a recurring basis at March 31, 2018 and 2017 and the valuation techniques used by the Society to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Society has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Society's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

In instances whereby inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Society's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Note 3 - Fair Value Measurements (Continued)

The Society has the following recurring fair value measurements as of March 31, 2018:

	Assets Measured at Fair Value on a Recurring Basis				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at March 31, 2018
Investments:					
Money market funds	$ 504,196	$ -	$ -	$ -	$ 504,196
Western Asset Intermediate Bond Fund	6,454,892	-	-	-	6,454,892
Baird Intermediate Fund	5,293,198	-	-	-	5,293,198
Templeton Foreign Small Company Fund	4,350,525	-	-	-	4,350,525
Dimensional Fund	1,417,955	-	-	-	1,417,955
Vanguard Short-term Investment Grade Fund	2,101,945	-	-	-	2,101,945
TCW Emerging Markets Local Income Fund	701,810	-	-	-	701,810
Ballie Gifford Harbor Fund	8,478,143	-	-	-	8,478,143
Small-cap mutual fund	4,544,482	-	-	-	4,544,482
International stock fund	7,626,566	-	-	-	7,626,566
Hedge funds	-	-	-	46,380,332	46,380,332
Bank common trust fund	-	-	-	40,086,564	40,086,564
Total investments	$ 41,473,712	$ -	$ -	$ 86,466,896	$ 127,940,608

The Society has the following recurring fair value measurements as of March 31, 2017:

	Assets Measured at Fair Value on a Recurring Basis				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at March 31, 2017
Investments:					
Money market funds	$ 446,537	$ -	$ -	$ -	$ 446,537
Western Asset Intermediate Bond Fund	6,334,644	-	-	-	6,334,644
Templeton Foreign Small Company Fund	3,519,027	-	-	-	3,519,027
Dimensional Fund	1,183,991	-	-	-	1,183,991
Vanguard Short-term Investment Grade Fund	2,086,156	-	-	-	2,086,156
TCW Emerging Markets Local Income Fund	619,103	-	-	-	619,103
Harbor International Growth Instl	7,144,230	-	-	-	7,144,230
PNC Intermediate Bond	5,046,863	-	-	-	5,046,863
Small-cap mutual fund	4,451,219	-	-	-	4,451,219
International stock fund	7,007,422	-	-	-	7,007,422
Hedge funds				43,730,193	43,730,193
Bank common trust funds				34,920,589	34,920,589
Total investments	$ 37,839,192	$ -	$ -	$ 78,650,782	$ 116,489,974

Note 3 - Fair Value Measurements (Continued)

The Society's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the beginning of the reporting period in which the circumstances that caused the transfer occurred.

During the years ended March 31, 2018 and 2017, there were no such transfers.

Investments in Entities that Calculate Net Asset Value per Share

The Society holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment company.

As of March 31, 2018, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	March 31, 2018	March 31, 2017	March 31, 2018		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Hedge funds:					
Equity long hedge funds (a)	$ 5,278,395	$ 4,686,293	$ -	Quarterly	30 Days
Equity long/short hedge funds (b)	17,878,756	16,258,515	-	Quarterly	15-60 Days
Directional hedge funds (c)	226,969	389,030	-	Quarterly	30 Days
Directional hedge funds (c)	4,422,812	4,391,451	-	Biennially	90 Days
Low-volatility hedge funds (d)	10,500,050	14,217,995	-	Quarterly	30-90 Days
Multistrategy macro hedge funds (e)	48,177	88,324	-	Quarterly	30 Days
Multistrategy macro hedge funds (e)	8,025,173	3,698,585	-	Annual	60-90 Days
Bank common trust funds (f):					
Northern Trust S&P 500	32,884,100	28,796,092	-	Daily	N/A
Northern Trust All Country World	7,202,464	6,124,497	-	Daily	N/A
Total investments measured at NAV	$ 86,466,896	$ 78,650,782	$ -		

a. Long only United States Equity: These managers will typically invest at least 80 percent in U.S.-domiciled equities. These managers use fundamental and quantitative analysis to find undervalued and attractive opportunities. These managers will not use leverage in their portfolios.

b. Equity Long/Short: These managers typically maintain portfolios with exposure between 100 percent to 160 percent net long and 30 percent to 70 percent 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 portfolios will maintain exposure to credit when attractive opportunities become 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.

Note 3 - Fair Value Measurements (Continued)

c. Directional: The directional strategies are composed of managers with higher expected returns and portfolio risk; the strategies will be part of the capital appreciation allocation in the total portfolio. The strategies will generally have an equity bias, as many of the underlying managers have dedicated equity long/short mandates. Other hedge fund strategies in the portfolio include event-driven equities and credit, merger arbitrage, long/short corporate credit, distressed credit, structured credit, and capital structure arbitrage. The investment managers will generally use fundamental analysis to uncover attractive investment opportunities. These managers typically maintain portfolios with higher net long exposures. The managers' regional allocations will be diversified globally, with a focus in the U.S., Europe, Asia, and some select emerging markets. One hedge fund included in the directional strategies has a rolling two-year lockup. One hedge fund included in the directional strategies has a one-year lockup.

d. Low Volatility: The low-volatility strategies are composed of managers with lower expected returns and portfolio risk; the strategies will be part of the capital preservation allocation in the total portfolio. These strategies are expected to be less correlated to the broader markets and provide consistent long-term returns. The strategies will tend to have a market neutral and relative value tilt, as many of the underlying managers will seek to isolate alpha while either directly or indirectly hedging market risk. Other hedge fund strategies in the portfolio will include corporate credit, liquid distressed credit, merger arbitrage, convertible arbitrage, structured credit, and capital structure arbitrage. These managers typically maintain portfolios with lower net long exposures given the underlying strategies employed. The managers' regional allocations will be diversified globally with a focus in the U.S., Europe, Asia, and some select emerging markets.

e. Multistrategy Macro: Multistrategy macro hedge funds will take long and short positions in various securities based on top-down economic or political views. The fund will allocate to both discretionary trading and systematic quantitative-based strategies. The correlations of the underlying strategies tend to be low, which has led to low volatility at the portfolio level and performance that has historically been uncorrelated to the broad market. The discretionary strategies in the portfolio include trading interest rates, currency, and sovereign credit in both developed and emerging markets, thematic fixed income, liquid distressed credit, and trade finance. The systematic strategies include trend following and statistical arbitrage. The fund's regional allocations will be diversified globally with a focus in the U.S., Europe, Asia, Australia, and some select emerging markets.

f. 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.

NTGI-QM Common Daily All Country World ex U.S. Equity Index Fund - Lending: The primary objective of this fund is to approximate the risk and return characteristics of the MSCI ACWI ex U.S. index. This index is commonly used to represent the performance of non-U.S. emerging and developed markets. This fund may participate in securities lending.

Note 4 - Investments

The components of investment income for the years ended March 31 are as follows:

	2018	2017
Unrestricted:		
Interest and dividends	$ 967,388	$ 797,473
Realized and unrealized gains	6,120,847	6,538,604
Temporarily restricted:		
Interest and dividends	655,606	540,514
Realized and unrealized gains	4,118,277	4,724,787
Total	$ 11,862,118	$ 12,601,378

Total investment expenses were $97,490 and $92,736 for the years ended March 31, 2018 and 2017, respectively.

Note 5 - Pledges and Grants Receivable

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

	2018	2017
Pledges and grants receivable:		
Within one year	$ 10,502,572	$ 9,874,056
One to five years	13,121,372	16,538,828
Five to nine years	5,000,000	5,900,000
Total	28,623,944	32,312,884
Less discounts	(1,876,660)	(2,275,844)
Net pledges and grants receivable	$ 26,747,284	$ 30,037,040

Pledges and grants receivable are adjusted to present value using discounted rates between 1.04 percent and 2.67 percent.

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017	Depreciable Life - Years
Land improvements	$ 2,143,039	$ 2,099,541	3-32
Machinery and equipment	2,596,006	2,077,504	3-10
Furniture and fixtures	81,998	62,483	3-7
Total cost	4,821,043	4,239,528	
Accumulated depreciation	2,653,121	2,358,214	
Net property and equipment	$ 2,167,922	$ 1,881,314	

Depreciation expense for 2018 and 2017 was $294,907 and $299,837, respectively.

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 March 2, 2002, and an additional note for $10,000,000 on December 18, 2003. An additional $30,000,000 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 $15,000,000 on November 1, 2013 and an additional note for $15,000,000 on May 5, 2015. The total principal amount of all such notes was not to exceed $70,000,000 outstanding at any one time under the agreement.

As of March 31, 2017, the Society had issued $70,000,000. 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.

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 $71,750,000. The Society was subject to certain covenants relative to, among other things, operating performance measures. The LOC secured the payment of the principal and certain interest payments until November 30, 2017, when it was subject to renegotiation. The total balance was subject to a .80 percent annual fee.

The interest rates on the notes were variable and were determined by JPMorgan Chase & Company (JPMorgan) as the remarketing agent and were defined as tax-exempt rates equal to the lowest rates, which, in the judgment of JPMorgan, would enable the notes to be remarketed 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 March 31, 2018 and 2017 was $913,860 and $791,376, respectively.

In December 2017, the notes were extinguished and the outstanding principal and interest balance paid in full from the proceeds on the issuance of the bonds discussed in Note 8.

Note 8 - Bonds Payable

In December 2017, the Illinois Finance Authority (IFA) issued tax-exempt bonds in the amount of $70,354,000 (the Series 2017A and 2017B Bonds) through private placement. The proceeds from the issuance were loaned to the Society for the purpose of redeeming its commercial paper, which had been previously issued by the Illinois Educational Facilities Authority, and funding the issuance costs. The Series 2017 Bonds carry a variable interest rate based on LIBOR, which was 2.019 percent as of March 31, 2018. Expenses incurred in connection with the Series 2017 bonds were capitalized and are being amortized on a straight-line basis over the bond terms. The bond terms are five years with an option for renewal.

Note 8 - Bonds Payable (Continued)

The principal balances are payable as follows:

November 1, 2025	$ 9,000,000
June 1, 2027	4,935,000
November 1, 2028	6,065,000
May 1, 2032	20,000,000
November 1, 2043	30,354,000
Less bond issuance costs	(336,300)
Total	$ 70,017,700

The Society is subject to certain covenants relative to, among other things, operating performance measures.

Total interest costs incurred in 2018 were $369,503.

Note 9 - Net Assets

Temporarily restricted net assets as of March 31 are available for the following purposes:

	2018	2017
Purpose restrictions:		
Capital expenditures	$ 1,853,781	$ 502,264
Programs and operations expenditures	9,208,965	10,623,975
Endowment appropriations	21,248,505	15,622,591
Time restrictions	4,000,000	-
Total temporarily restricted net assets	$ 36,311,251	$ 26,748,830

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

	2018	2017
Capital expenditures	$ 2,178,214	$ 2,410,011
Programs and operations expenditures	5,145,322	4,208,645
Endowment appropriations	1,600,002	1,636,485
Total	$ 8,923,538	$ 8,255,141

Permanently restricted net assets as of March 31 are restricted to the following:

	2018	2017
Animal care	$ 9,569,974	$ 9,569,974
Conservation and science	5,086,712	5,028,822
Education	3,000,000	3,000,000
Horticulture and sculptures	3,425,080	3,425,080
General operations	12,638,374	12,598,643
Total	$ 33,720,140	$ 33,622,519

Note 10 - Donor-restricted and Board-designated Endowments

The Society's endowment consists of 19 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds only. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on existences or absences of donor-imposed restrictions.

Note 10 - Donor-restricted and Board-designated Endowments (Continued)

Interpretation of Relevant Law

The board of trustees 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:

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

	Endowment Net Asset Composition by Type of Fund as of March 31, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 18,796,472	$ 33,720,140	$ 52,516,612

	Changes in Endowment Net Assets for the Fiscal Year Ended March 31, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ -	$ 15,622,591	$ 33,622,519	$ 49,245,110
Investment return:				
Investment income	-	655,606	-	655,606
Net depreciation (realized and unrealized)	-	4,118,277	-	4,118,277
Total investment return	-	4,773,883	-	4,773,883
Contributions	-	-	97,621	97,621
Appropriation of endowment assets for expenditure	-	(1,600,002)	-	(1,600,002)
Endowment net assets - End of year	$ -	$ 18,796,472	$ 33,720,140	$ 52,516,612

Note 10 - Donor-restricted and Board-designated Endowments (Continued)

	Endowment Net Asset Composition by Type of Fund as of March 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 15,622,591	$ 33,622,519	$ 49,245,110

	Changes in Endowment Net Assets for the Fiscal Year Ended March 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ -	$ 11,993,775	$ 33,576,276	$ 45,570,051
Investment return:				
Investment income	-	540,514	-	540,514
Net depreciation (realized and unrealized)	-	4,724,787	-	4,724,787
Total investment return	-	5,265,301	-	5,265,301
Contributions	-	-	46,243	46,243
Appropriation of endowment assets for expenditure	-	(1,636,485)	-	(1,636,485)
Endowment net assets - End of year	$ -	$ 15,622,591	$ 33,622,519	$ 49,245,110

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. There were no such deficiencies as of March 31, 2018 and 2017.

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 as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Society expects its endowment funds, over time, to provide an annual real return of 5 percent, net of inflation and expenses. Actual returns in any given year may vary from this amount.

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 10 - Donor-restricted and Board-designated Endowments (Continued)

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 percent of assets annually, based on the average market value for the trailing three fiscal years. 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 percent annually. This is consistent with the Society's objective to provide additional real growth through new gifts and investment return.

Note 11 - Retirement Plans

The Society provides a defined contribution employee retirement program under which it makes contributions equal to 3 percent of the eligible participant's salary and also matches participant contributions up to an additional 3 percent of the participant's salary. The Society's contribution for the fiscal years ended March 31, 2018 and 2017 totaled $652,326 and $590,519, respectively.

The Society has established 457(b) and 457(f) deferred compensation plans for select employees. The Society may make contributions for the benefit of eligible employees; the Society contributed $0 in 2018 and 2017. Balances in the 457(b) and 457(f) plans are subject to forfeiture until age or certain other requirements are met. The assets in the plans are held in trust but remain property of the Society and are subject to the claims of the Society's general creditors. The Society's liability for benefits under this plan is limited to the balance of assets in the plan. As of March 31, 2018 and 2017, total assets of the plan were $484,334 and $446,537, respectively.

Note 12 - Other Cash Flow Information

During the years ended March 31, 2018 and 2017, pledged receivables of $2,884,205 and $912,345, respectively, were paid by the donation of common stock, which the Society sold as soon as was practical.

Note 13 - Construction Commitments

During 2018, the Society was contracted under a commitment for a large construction contract of approximately $6,500,000, including retainage/contingency of 10 percent, which was still ongoing at March 31, 2018. As of March 31, 2017, the Society had no signed commitments.