Financial Statements and Report of Independent Certified Public Accountants

NAVY PIER, INC.

December 31, 2018 and 2017

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Navy Pier, Inc.

We have audited the accompanying financial statements of Navy Pier, Inc., which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Grant Thornton

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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter

The financial statements of Navy Pier, Inc. as of and for the year ended December 31, 2017 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2017 financial statements in their report dated June 15, 2018.

Grant Thornton LLP

Chicago, Illinois
May 14, 2019

NAVY PIER, INC.
STATEMENTS OF FINANCIAL POSITION
Years ended December 31, 2018 and 2017

Assets	2018	2017
Current Assets		
Cash and cash equivalents	$ 16,080,333	$ 28,906,380
Short-term investments	5,927,150	14,734,329
Accounts receivable, net	2,951,728	4,001,782
Pledges receivable, net	162,333	4,386,000
Prepaid expenses	1,084,872	811,756
Current Assets	26,206,416	52,840,247
Non-Current Assets		
Pledges receivable, net	1,025,567	1,131,778
Property and equipment, net	181,658,349	169,608,175
Non-Current Assets	182,683,916	170,739,953
Total Assets	$ 208,890,332	$ 223,580,200

Liabilities and Net Assets	2018	2017
Current Liabilities		
Accounts payable and accrued expenses	$ 11,364,608	$ 14,328,061
Advance deposits	747,942	448,320
Deferred revenue	2,157,629	1,415,788
Bonds and loans payable, net	3,081,000	6,820,000
Total Current Liabilities	17,351,179	23,012,169
Non-Current Liabilities		
Deferred revenue	5,550,006	6,084,196
Interest rate swap	260,037	152,136
Bonds and loans payable, net	54,825,525	57,828,838
Total Non-Current Liabilities	60,635,568	64,065,170
Total Liabilities	77,986,747	87,077,339
Net Assets:		
Without donor restrictions	129,419,684	127,528,497
With donor restrictions	1,483,901	8,974,364
Total Net Assets	130,903,585	136,502,861
Total Liabilities and Net Assets	$ 208,890,332	$ 223,580,200

See accompanying notes to financial statements.

Navy Pier, Inc.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2018 and 2017

	2018					2017				
	Without Donor Restrictions			With Donor		Without Donor Restrictions			With Donor	
Revenues and Support	Operating	Non-Operating	Total	Restrictions	Total	Operating	Non-Operating	Total	Restrictions	Total
Contributions and Grants	$ 1,274,248	$ -	$ 1,274,248	$ 352,123	$ 1,626,371	$ 2,302,317	$ 607,414	$ 2,909,731	$ 5,402,936	$ 8,312,667
Sponsorships	3,578,303	-	3,578,303	-	3,578,303	3,339,530	-	3,339,530	-	3,339,530
In-Kind Support	545,980	329,245	875,225	-	875,225	557,968	-	557,968	-	557,968
Pier Park Amusements	13,274,536	-	13,274,536	-	13,274,536	14,279,882	-	14,279,882	-	14,279,882
Programming Events	3,401,339	-	3,401,339	-	3,401,339	3,679,591	-	3,679,591	-	3,679,591
Retail	13,982,739	102,348	14,085,087	-	14,085,087	14,501,644	-	14,501,644	-	14,501,644
Parking	10,318,623	-	10,318,623	-	10,318,623	11,079,804	-	11,079,804	-	11,079,804
Facility Rental	5,728,275	-	5,728,275	-	5,728,275	6,698,365	-	6,698,365	-	6,698,365
Food and Beverage	3,238,004	-	3,238,004	-	3,238,004	3,169,403	-	3,169,403	-	3,169,403
Investment Return, net	85,205	355,555	440,760	-	440,760	-	20,420	20,420	-	20,420
Change in Value of Swap	-	(107,901)	(107,901)	-	(107,901)	-	(152,136)	(152,136)	-	(152,136)
Other	243,421	172,192	415,613	-	415,613	45,301	35,276	80,577	-	80,577
Net Assets Released from Donor Restriction	-	7,842,586	7,842,586	(7,842,586)	-	-	9,960,745	9,960,745	(9,960,745)	-
Total Revenues and Support	55,670,673	8,694,025	64,364,698	(7,490,463)	56,874,235	59,653,805	10,471,719	70,125,524	(4,557,809)	65,567,715
Expenses										
Program	43,189,110	11,886,544	55,075,654	-	55,075,654	45,837,326	9,779,272	55,616,598	-	55,616,598
Administration	5,631,175	113,355	5,744,530	-	5,744,530	6,273,942	89,279	6,363,221	-	6,363,221
Fundraising	1,596,650	56,677	1,653,327	-	1,653,327	2,073,251	44,639	2,117,890	-	2,117,890
Total Expenses	50,416,935	12,056,576	62,473,511	-	62,473,511	54,184,519	9,913,190	64,097,709	-	64,097,709
Change in Net Assets before Transfers	5,253,738	(3,362,551)	1,891,187	(7,490,463)	(5,599,276)	5,469,286	558,529	6,027,815	(4,557,809)	1,470,006
Board-Designated Transfers	(11,335,482)	11,335,482	-	-	-	(8,927,943)	8,927,943	-	-	-
Change in Net Assets	$ (6,081,744)	$ 7,972,931	1,891,187	(7,490,463)	(5,599,276)	$ (3,458,657)	$ 9,486,472	6,027,815	(4,557,809)	1,470,006
Net Assets, Beginning of Year			127,528,497	8,974,364	136,502,861			121,500,682	13,532,173	135,032,855
Net Assets, End of Year			$ 129,419,684	$ 1,483,901	$ 130,903,585			$ 127,528,497	$ 8,974,364	$ 136,502,861

See accompanying notes to financial statements.

Navy Pier, Inc.
Statements of Functional Expenses
Years ended December 31, 2018 and 2017

	2018				2017			
	Program	Administrative	Fundraising	Total	Program	Administrative	Fundraising	Total
Salaries and Benefits	$ 11,375,055	$ 3,298,158	$ 745,394	$ 15,418,607	$ 10,980,487	$ 3,837,095	$ 903,439	$ 15,721,021
Contracted Services	15,610,003	5,078	103,089	15,718,170	18,269,845	4,298	157,751	18,431,894
Professional Fees	3,397,509	1,332,211	311,474	5,041,194	3,858,257	1,353,086	309,268	5,520,611
Arts, Culture and Engagement	3,258,715	-	3,900	3,262,615	2,888,921	-	25,000	2,913,921
Advertising and Promotions	2,292,850	38,653	211,255	2,542,758	2,732,915	10,000	395,081	3,137,996
Utilities	2,827,696	30,868	14,354	2,872,918	2,711,522	27,528	13,764	2,752,814
Maintenance	1,743,897	179,093	4,402	1,927,392	1,757,794	175,420	-	1,933,214
Equipment	164,231	106,537	55,332	326,100	276,694	94,849	6,082	377,625
Supplies	557,291	24,786	23,164	605,241	687,014	33,815	6,622	727,451
Insurance	1,518,214	80,069	7,492	1,605,775	1,551,508	77,289	7,876	1,636,673
Information Technology	204,953	173,081	126	378,160	75,385	251,209	7,077	333,671
Telecommunications	40,109	104,252	3,418	147,779	35,987	156,479	2,125	194,591
Postage and Shipping	1,773	9,324	6,870	17,967	35,316	9,077	15,254	59,647
Printing	49,232	14,125	5,150	68,507	192,758	14,336	34,392	241,486
Travel and Entertainment	79,520	75,834	51,400	206,754	135,015	84,060	91,558	310,633
Training	220	13,221	6,795	20,236	12,140	29,267	1,692	43,099
Credit Card and Bank Fees	614,260	30,614	216	645,090	579,160	31,477	2,605	613,242
Dues and Subscriptions	43,439	46,471	10,073	99,983	37,449	40,539	4,273	82,261
Miscellaneous	131,238	68,800	32,745	232,783	4,407	44,117	89,392	137,916
Interest	2,039,460	20,705	10,353	2,070,518	1,137,947	11,553	5,776	1,155,276
Depreciation and Amortization	9,125,989	92,650	46,325	9,264,964	7,656,077	77,727	38,863	7,772,667
	$ 55,075,654	$ 5,744,530	$ 1,653,327	$ 62,473,511	$ 55,616,598	$ 6,363,221	$ 2,117,890	$ 64,097,709

See accompanying notes to financial statements.

Navy Pier, Inc.
Statements of Cash Flows
Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (5,599,276)	$ 1,470,006
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,187,277	7,704,214
Amortization of debt issuance costs	77,687	68,453
Realized and unrealized investment gains and losses	(37,906)	(622)
Unrealized loss on interest rate swap	107,901	152,136
Contributions and grants restricted for capital projects	(4,250,000)	(11,500,000)
Amortization of discount for pledges receivable	(27,122)	(178,571)
In-kind contributions for capitalized equipment	(329,245)	-
Changes in assets and liabilities:		
Accounts receivable	1,050,054	(357,651)
Pledges receivable	4,357,000	5,732,222
Prepaid expenses	(273,116)	(123,778)
Accounts payable and accrued expenses	(2,963,453)	998,804
Advance deposits	299,622	(332,605)
Deferred revenue	207,651	1,427,614
Net cash provided by operating activities	1,807,074	5,060,222
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	18,852,893	14,485,110
Purchases of investments	(10,007,808)	(27,923,817)
Purchase of property and equipment, including capitalized interest	(20,908,206)	(34,083,258)
Net cash used in investing activities	(12,063,121)	(47,521,965)
Cash flows from financing activities:		
Loan proceeds	-	23,000,000
Contributions restricted for capital projects	4,250,000	11,500,000
Bond and loan repayment	(6,820,000)	(3,750,000)
Debt issuance costs	-	(95,859)
Net cash (used in) provided by financing activities	(2,570,000)	30,654,141
Net decrease in cash and cash equivalents	(12,826,047)	(11,807,602)
Cash and cash equivalents – beginning of year	28,906,380	40,713,982
Cash and cash equivalents – end of year	$ 16,080,333	$ 28,906,380
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 2,087,000	$ 1,168,952
Non-cash acquisitions of property and equipment	$ 329,245	$ -

See accompanying notes to financial statements.

NOTE A - NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 activities within net assets without donor restrictions as either operating or non-operating. 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 the Pier as its only program.

  Non-Operating – include all Board-designated funds, investment returns (not subject to donor restriction), 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 the 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.

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. NPI maintains cash in bank deposit accounts, which may exceed federally insured limits. NPI has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk therein.

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 B. A bad debt reserve of approximately $39,000 and $37,000 was recorded as of December 31, 2018 and 2017, respectively, related to tenant and event accounts receivable.

Prepaid Expenses

Prepaid expenses consist primarily of prepayments for insurance coverage.

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 return, net.

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

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, 2018 and 2017.

Total property and equipment, net, is as follows at December 31:

	2018	2017
Construction in progress	$ 1,489,184	$ 5,456,830
Leasehold improvements	174,576,239	149,286,344
Equipment and other	32,170,146	32,464,974
Total property and equipment	208,235,569	187,208,148
Less accumulated depreciation	(26,577,220)	(17,599,973)
Total property and equipment, net	$181,658,349	$169,608,175

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.

In-Kind Contributions

NPI received goods and services as in-kind contributions in 2018 and 2017 which are recorded at estimated fair value. In-kind contributions for capitalized equipment were $329,245 in 2018 and $0 in 2017.

Expenses by Function

Expenses are reductions in net assets without donor restrictions and are recorded as incurred. Expenses related to the operation of the Pier are classified as program expenses 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 and security services. Administrative expenses consist of, but are not limited to, general management, accounting, legal, human resources, and information technology. Fundraising expenses are costs incurred to generate philanthropic contributions to NPI.

Costs which are shared by all three functions include depreciation, interest, and most insurance, and are shared based on approximate square footage associated with staff involved.

Interest Rate Swap

NPI has entered into interest rate swap agreements as part of its interest rate risk management strategy, not for speculation. NPI records the interest rate swap at fair value.

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:

	2018	2017
Within one year	$ 162,333	$4,386,000
In one to three years	1,166,667	1,300,000
	1,329,000	5,686,000
Less discount to net present value	(141,100)	(168,222)
	$1,187,900	$5,517,778

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, 2018 and 2017.

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.

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.

Recent 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 supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is currently effective for NPI for 2019. Early adoption is permitted. The guidance permits the use of either a retrospective or cumulative effect transition method.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statements of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for NPI for 2020. Early adoption is permitted.

Reclassifications

Certain 2017 financial statement line items have been reclassified to conform to the 2018 presentation.

Subsequent Events

NPI has performed an evaluation of subsequent events through May 14, 2019, which is the date the financial statements were issued.

NOTE B - 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, a comprehensive long-term plan to maintain and guide redevelopment of the Pier.

(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 was developed in 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 $115,000,000 between 2011 and 2016 which was used for implementation of the Framework Plan.

- 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. The contributed fair value of the lease is not presented on the financial statements due to the absence of verifiable measurement criteria.

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, 2018 and 2017, NPI has recorded the costs incurred but not yet reimbursed of $931,744 and $909,449, respectively, as accounts receivable. The reimbursement for these costs was received in March 2019.

NOTE C - INVESTMENTS

The following table summarizes the types of investments as of December 31:

	2018	2017
Type of investments:		
Domestic municipal bonds	$1,775,000	$ 1,465,000
Foreign fixed-income commercial paper	—	2,937,889
Corporate bonds:		
Domestic fixed-income securities	4,152,150	10,042,365
Foreign fixed-income securities	—	289,075
Total investments – at fair value	$5,927,150	$14,734,329

NOTE D - 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 2017 and 2018.

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 were the agreement 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 and investments are accounted for at fair value on a recurring basis, using the fair value hierarchy as follows:

	December 31, 2018	
	Level 1	Level 2
Cash equivalents	$1,144,573	$6,884,537
Investments:		
Domestic municipal bonds	$1,775,000	$ —
Corporate bonds:		
Domestic fixed-income securities	4,152,150	—
Total investments – at fair value	$5,927,150	$ —
Liabilities:		
Interest rate swap	$ —	$ 260,037

	December 31, 2017	
	Level 1	Level 2
Cash equivalents	$ 3,390,167	$ —
Investments:		
Domestic municipal bonds	$ 1,465,000	$ —
Foreign fixed-income commerical 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

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 2018 or 2017.

NOTE E - DERIVATIVE FINANCIAL INSTRUMENTS

Effective July 1, 2018, 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 2.193% with the counterparty paying NPI a floating rate based on 65.01% of three month LIBOR. The interest rate swap had an initial notional amount of $18,250,000 which is reduced annually on January 2 by $1,000,000 and which expires on January 1, 2023.

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 1 by $775,000 and which expires on September 22, 2024. The notional amount as of December 31, 2018 was $14,725,000.

The unrealized loss related to the two swap agreements was $107,901 and $152,136 for the years ended December 31, 2018 and 2017, respectively. Interest expense related to the swap agreements was $110,979 and $40,820 for the years ended December 31, 2018 and 2017, respectively.

NOTE F - 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 as of December 31:

	2018	2017
Cash and cash equivalents	$16,080,333	$28,906,380
Short-term investments	5,927,150	14,734,329
Accounts receivable, net	2,951,728	4,001,782
Pledges receivable, net	162,333	4,386,000
Total financial resources available within one year:	25,121,544	52,028,491
Less amounts unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	(358,333)	(8,148,401)
Debt issuance proceeds for capital improvements	(4,072,573)	(18,124,496)
Board-designation	(2,744,297)	(2,017,709)
Total amounts unavailable within one year for general expenditures:	(7,175,203)	(28,290,606)
Total financial assets available to meet cash needs for general expenditures within one year	$17,946,341	$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, could be made available for current operations, if necessary.

NOTE G - LONG-TERM DEBT

Long-term debt outstanding at December 31 consisted of the following:

	Interest rate	Fiscal year maturity	Amount December 31 2018	Amount December 31 2017
Illinois Finance Authority (IFA):				
Series 2014A Bonds [(a)]	2.90 %	2024	$ 25,205,000	$ 26,500,000
Series 2014B-R Bonds [(b)]	Variable	2023	18,250,000	19,250,000
Bank Bridge loan [(c)]	Variable	2018	-	3,750,000
Bank Construction loan [(d)]	Variable	2024	14,725,000	15,500,000
Total debt			58,180,000	65,000,000
Unamortized debt issuance costs			(273,475)	(351,162)
Bonds and loans payable, net			$ 57,906,525	$ 64,648,838

[(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 designated 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. Interest on the Series 2014A bonds is payable quarterly in arrears through January 1, 2024 at a fixed rate of 2.90%.

[(b)] In December 2014, NPI issued $20.0 million in IFA general obligation drawdown bonds, Series 2014B. The proceeds of the bonds were designated for capital projects subject to Lender approval, including $15.0 million for construction of a live performance theater.

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 commenced on January 1, 2018 and are payable in a lump-sum on January 1, 2023.

Interest on the Series 2014B-R bonds is payable quarterly in arrears at a floating rate of 1.982% plus 65.01% of one month LIBOR. At December 31, 2018, the stated interest rate on the Series 2014B-R bonds was 3.7605%. At December 31, 2017, the interest rate on the Series 2014B-R bonds was 2.9535%. In July 2018, NPI and Fifth Third Bank entered into an interest rate swap agreement to fix the interest rate on the Series 2014B-R at 4.175%.

Interest on the Series 2014B bonds replaced in 2017 was payable quarterly in arrears. 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 three month LIBOR 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 three month LIBOR rate.

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 year ended December 31, 2017 was $313,187. No interest was capitalized in 2018.

(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. Grant installments received in December 2017 and December 2018 totaling $7,500,000 were applied as loan repayments and the loan was fully repaid in December 2018.

Interest on the Bridge loan was payable monthly in arrears through December 2018 at a floating rate of one month LIBOR plus 1.75%. The Bridge loan was repaid on December 20, 2018. The interest rate on the final interest payment made on December 20, 2018 was 4.125%. At December 31, 2017, the interest rate on the Bridge loan was 3.125%.

(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 is being repaid in installments of $775,000 annually through September 2024 with a lump-sum payment due at maturity on September 22, 2024.

Interest on the Construction loan is payable quarterly in arrears at a floating rate of the one month LIBOR rate plus 1.85%. At December 31, 2018 and December 31, 2017, the stated interest rate on the Construction loan was 4.20% and 3.21%, respectively.

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 years ended December 31, 2018 and December 31, 2017 was $163,956 and $93,038, respectively.

During 2017, additional deferred debt issuance costs of $95,859 were incurred related to the Bridge loan and construction loan.

Interest expense for the years ended December 31, 2018 and 2017, net of capitalized interest, was $2,070,518 and $1,155,276, 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. As of December 31, 2018 and 2017, NPI was in compliance with all requirements of its covenants.

Required principal payments for bonds and loans as of December 31, 2018 are as follows:

	Debt payable
Year(s) ending December 31:	
2019	$ 3,081,000
2020	3,091,000
2021	3,100,000
2022	3,110,000
2023	3,119,000
Thereafter	42,679,000
	$58,180,000

NOTE H - LINE OF CREDIT

On August 8, 2017, NPI entered into a line of credit arrangement and revolving note with Fifth Third Bank for one year that expired on August 8, 2018. On August 15, 2018, NPI entered into a loan modification agreement that extended the due date of the line of credit arrangement to August 6, 2019. The note carries a maximum balance of $1,500,000 and a variable interest rate of one month LIBOR plus 1.9%.

During the years ended December 31, 2018 and 2017, 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 $3,542 and $3,375 for these fees during the years ended December 31, 2018 and 2017, respectively. All other financial covenants are incorporated by reference from the Additional Covenant Agreement under the bond and loan agreements with Fifth Third Bank.

NOTE I - EMPLOYEE BENEFITS AND RETIREMENT PLANS

401(k) 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 Plan commenced effective August 1, 2013. NPI contributes to the Plan for eligible non-represented 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 $360,000 to the Plan for 81 eligible employees during the year ended December 31, 2018 and $343,000 to the Plan for 81 eligible employees during the year ended December 31, 2017.

Multiemployer Retirement Plans

NPI contributes to a number of defined benefit multi-employer pension plans under the terms of collective-bargaining agreements which cover its union-represented employees. The risks of participating in these multi-employer plans are different from single-employer plans in the following respects:

a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c) If NPI chooses to stop participating in any of its multi-employer plans, NPI may be required to pay those plans an amount based on NPI's proportionate share of unfunded vested plan benefits, referred to as a withdrawal liability.

NPI participates in eight multi-employer defined benefit plans, four of which are material to NPI's financial position. NPI's participation in the plans which cover Carpenter, Engineer, Painter, and Stagehand employees is outlined in the following table. "EIN/Pension Plan Number" provides the Employee Identification Number (EIN) and the three-digit plan number. The most recent Pension Protection Act (PPA) zone status available is for the plan's year-end. The zone status is based on information that NPI received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. “FIP/RP Status” indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. There have been no significant changes that affect the comparability of 2018 and 2017 contributions.

	Carpenters	**Engineers**	**Painters**	**Stagehands**
Pension Fund	Chicago Regional Council of Carpenters Pension Fund	Central Penstion Fund of The IUOE & Participating Employers	Chicago Painters and Decorators Pension Fund	Stagehands Local Two Retirement Plan
EIN/pension plan number	36-6130207/001	36-6052390/001	51-6030238/001	36-6099766/001
Expiration date of collective bargaining agreement	5/31/2019	1/14/2020	5/31/2021	12/31/2019
NPI Contributions				
2018	$134,725	$214,054	$125,495	$156,908
2017	$162,897	$188,855	$123,436	$156,844
Plan year-end of most recent Form 5500 filing	6/30/2018	1/31/2018	3/31/2018	12/31/2017
PPA Zone Status				
Most recent year	Green	Green	Green	Green
Two years prior	Green	Green	Green	Green
FIP/RP status	Not applicable	Not applicable	Not applicable	Not applicable
Surcharge Imposed	No	No	No	No
NPI contributed more than 5% of total contributions	No	No	No	No

NPI contributed a total of $121,891 and $122,963 to four other defined benefit multi-employer plans in 2018 and 2017, respectively. NPI also contributed $198,037 and $210,284 to various defined contribution multi-employer plans in 2018 and 2017, respectively.

NOTE J - NET ASSETS WITH DONOR RESTRICTIONS

All net assets with donor restrictions at December 31, 2018 and 2017 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 are as follows:

	2018	2017
Purpose restricted	$ 741,894	$8,148,401
Time restricted	742,007	825,963
	$1,483,901	$8,974,364

In addition, net assets without donor restrictions included board-designated amounts of $2,744,297 and $2,017,709 at December 31, 2018 and 2017, respectively. Amounts are designated for general reserves and capital projects to be identified.

NOTE K - RELATED-PARTY TRANSACTIONS

MPEA provided and continues to provide certain services to NPI, primarily for utilities in 2018. In 2017, MPEA provided utilities, contracted security personnel, and payroll-processing services. In May 2017, NPI ended the agreement related to security personnel, and in October 2017, NPI ended the agreement related to payroll-processing services. In 2019, the agreements related to utility services will end. Costs for services purchased from the MPEA totaled approximately $2.5 million and $3.8 million for the years ended December 31, 2018 and 2017, respectively.

NOTE L - 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.

NOTE M - COMMITMENTS

NPI's current construction projects are managed by a general contractor with a signed remaining commitment of approximately $1.2 million as of December 31, 2018. The construction projects are expected to be completed by June 2019.

Under its lease with the Chicago Children's Museum (the Museum), NPI has a construction allowance commitment related to the renovation of the Museum. The remaining commitment as of December 31, 2018 was $1.1 million.

In November 2018, NPI entered into an installment purchase agreement with a third-party service provider to provide equipment and improvements for the parking garage. The amount being financed of $2.5 million will be repaid over seven years commencing in January 2019. No equipment or improvements were received as of December 31, 2018.