KPMG

NAVY PIER, INC.

Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

NAVY PIER, INC.

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Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
Navy Pier, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Navy Pier, Inc., which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years ended December 31, 2016 and 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Navy Pier, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
July 12, 2017

NAVY PIER, INC.

Statements of Financial Position

December 31, 2016 and 2015

Assets		**2016**	**2015**
Cash and cash equivalents	$	20,939,597	25,769,448
Cash and cash equivalents – restricted		19,774,385	8,587,353
Investments		—	129,800
Investments – restricted		1,295,000	11,294,817
Accounts receivable, net of allowance for doubtful accounts of $42,685 and $47,088 as of December 31, 2016 and 2015, respectively		2,911,378	2,784,101
Promises to give, net of discount		11,071,429	10,722,789
Prepaid expenses		687,978	747,940
Deposit – City of Chicago		—	207,750
Due from MPEA		732,753	507,265
Property and equipment:			
Construction in progress		16,540,162	24,956,401
Leasehold improvements		106,167,882	84,607,470
Equipment and other		31,074,549	4,946,742
Total property and equipment		153,782,593	114,510,613
Less accumulated depreciation		(10,553,462)	(5,036,700)
Total property and equipment, net		143,229,131	109,473,913
Total assets	$	200,641,651	170,225,176
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	13,329,257	19,670,540
Advance deposits		780,925	481,741
Derivative liability		—	607,791
Deferred revenue		6,072,370	1,230,987
Deposit from MPEA for Framework Plan		—	434,123
Bonds payable net of deferred bond issuance costs and accumulated amortization of $323,756 and $378,242 as of December 31, 2016 and 2015, respectively		45,426,244	26,556,902
Total liabilities		65,608,796	48,982,084
Net assets:			
Unrestricted net assets		121,500,682	104,087,719
Temporarily restricted net assets		13,532,173	17,155,373
Total net assets		135,032,855	121,243,092
Total liabilities and net assets	$	200,641,651	170,225,176

See accompanying notes to financial statements.

NAVY PIER, INC.

Statements of Activities

Years ended December 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenue:						
Retail	$ 14,177,709	—	14,177,709	14,442,364	—	14,442,364
Parking	11,070,030	—	11,070,030	9,757,285	—	9,757,285
Pier park amusements	12,500,769	—	12,500,769	7,310,682	—	7,310,682
Programming events	4,762,283	—	4,762,283	3,560,811	—	3,560,811
Use of exhibition facilities	5,962,418	—	5,962,418	5,191,754	—	5,191,754
Food and beverage	3,652,660	—	3,652,660	2,860,544	—	2,860,544
Sponsorship	2,526,153	—	2,526,153	1,924,082	—	1,924,082
Contributions, grants and contracts for programs	275,200	—	275,200	105,750	—	105,750
Other	19,885	—	19,885	25,515	—	25,515
Total revenue	54,947,107	—	54,947,107	45,178,787	—	45,178,787
Expenses:						
Program:						
Salaries and benefits	8,317,790	—	8,317,790	7,200,525	—	7,200,525
Outsourced services	20,953,053	—	20,953,053	17,930,603	—	17,930,603
Other services	3,203,088	—	3,203,088	2,078,699	—	2,078,699
Utilities	3,099,109	—	3,099,109	2,947,512	—	2,947,512
Marketing	2,583,325	—	2,583,325	2,358,290	—	2,358,290
Equipment and supplies	2,050,297	—	2,050,297	999,575	—	999,575
Professional fees	1,924,393	—	1,924,393	1,444,135	—	1,444,135
Insurance	1,407,122	—	1,407,122	1,495,304	—	1,495,304
Other	57,535	—	57,535	61,835	—	61,835
Total program expenses	43,595,712	—	43,595,712	36,516,478	—	36,516,478
Management and general:						
Salaries and benefits	4,404,869	—	4,404,869	3,922,250	—	3,922,250
Outsourced and other services	580,719	—	580,719	404,918	—	404,918
Utilities	80,190	—	80,190	82,018	—	82,018
Equipment and supplies	405,712	—	405,712	416,429	—	416,429
Professional fees	983,951	—	983,951	991,414	—	991,414
Insurance	188,587	—	188,587	222,837	—	222,837
Other	96,357	—	96,357	74,944	—	74,944
Total management and general	6,740,385	—	6,740,385	6,114,810	—	6,114,810
Total expenses	50,336,097	—	50,336,097	42,631,288	—	42,631,288
Excess of revenue over expenses before other changes in net assets	4,611,010	—	4,611,010	2,547,499	—	2,547,499
Construction administration expense	(164,015)	—	(164,015)	(693,547)	—	(693,547)
Fundraising expense	(966,140)	—	(966,140)	(619,620)	—	(619,620)
Depreciation expense	(5,516,762)	—	(5,516,762)	(2,655,185)	—	(2,655,185)
Interest income	27,041	—	27,041	47,227	—	47,227
Investment income	69,308	—	69,308	65,600	—	65,600
Interest expense	(494,881)	—	(494,881)	(120,435)	—	(120,435)
Derivative gain (loss) on foreign currency transaction, net	80,048	—	80,048	(770,243)	—	(770,243)
Derivative loss on foreign currency transaction – unrealized	—	—	—	(248,187)	—	(248,187)
Unrealized gain (loss) on investments, net	76,971	—	76,971	(42,692)	—	(42,692)
Proceeds from sale of Ferris Wheel	—	—	—	570,000	—	570,000
Insurance recoveries for property damage	—	—	—	809,221	—	809,221
Contributions, grants and contracts for capital projects	284,420	348,640	633,060	480,024	510,609	990,633
Net assets released from restriction	3,971,840	(3,971,840)	—	2,317,416	(2,317,416)	—
MPEA reimbursement for Framework Plan expenses	15,434,123	—	15,434,123	24,861,029	—	24,861,029
Change in net assets	17,412,963	(3,623,200)	13,789,763	26,548,107	(1,806,807)	24,741,300
Net assets – beginning of year	104,087,719	17,155,373	121,243,092	77,539,612	18,962,180	96,501,792
Net assets – end of year	$ 121,500,682	13,532,173	135,032,855	104,087,719	17,155,373	121,243,092

See accompanying notes to financial statements.

NAVY PIER, INC.

Statements of Cash Flows

Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 13,789,763	24,741,300
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
MPEA reimbursement for Framework Plan expenses	(15,434,123)	(24,861,029)
Depreciation	5,516,762	2,655,185
Amortization of bond issuance costs	54,486	54,485
Proceeds from sale of Ferris Wheel	—	(570,000)
Donation of stock	—	(129,620)
Insurance recoveries for property damage	—	(809,221)
Net realized and unrealized income on investments	(146,279)	(22,908)
Contributions and grants restricted for capital projects	(284,420)	(350,404)
Amortization of discount for promises to give	(348,640)	(510,609)
Changes in assets and liabilities:		
Accounts receivable	(127,277)	(138,109)
Promises to give	—	3,750,000
Prepaid expenses	59,962	182,183
Accounts payable and accrued expenses	(6,341,283)	963,110
Advance deposits	299,184	(21,137)
Due from MPEA	(225,488)	(363,863)
Derivative liability	(607,791)	248,187
Deposit – City of Chicago	207,750	—
Deferred revenue	4,841,383	—
Accrued interest payable	—	(34,505)
Net cash provided by operating activities	1,253,989	4,783,045
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	11,056,174	11,111,192
Purchases of investments	(780,278)	(4,846,863)
Purchase of property and equipment	(39,271,980)	(36,902,285)
Insurance recoveries for property damage	—	809,221
Net cash used in investing activities	(28,996,084)	(29,828,735)
Cash flows from financing activities:		
Bond proceeds	19,564,856	—
Contributions and grants restricted for capital projects	284,420	350,404
Bond repayment	(750,000)	—
Loan repayment	—	(2,500,000)
Deposit for Framework Plan from MPEA	15,000,000	20,000,000
Net cash provided by financing activities	34,099,276	17,850,404
Net increase (decrease) in cash and cash equivalents	6,357,181	(7,195,286)
Cash and cash equivalents – beginning of year	34,356,801	41,552,087
Cash and cash equivalents – end of year	$ 40,713,982	34,356,801

See accompanying notes to financial statements.

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

(a) Nature of the Organization

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

(b) Basis of Presentation

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

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

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

NPI Pier considers operating Navy Pier as its only program. NPI reports the operations of the Pier as revenues and expenses in the statements of activities before nonoperating items which include: construction administration expense, fundraising expense, depreciation expense, interest and investment income, interest expense, derivative gains or losses, contributions for capital projects and other unusual or nonrecurring items. Other changes in unrestricted net assets include revenue and expenses associated with the lease agreement, as further described in note 2.

(c) Cash, Cash Equivalents, and Restricted Cash

Cash consists of cash on hand and demand deposits. Cash equivalents consist of highly liquid short-term investments with original maturities of 90 days or less. Restricted cash consists of contributions and bond proceeds restricted for construction projects and amounts restricted for vendor reserve accounts, as further described in note 13. In 2015, restricted cash also includes cash received from MPEA to be used for implementation of the Pier's Framework Plan as described in note 2.

(d) Accounts Receivable

Accounts receivable consist of rents due from the Pier tenants, trade accounts receivable due for NPI's convention and meeting business, and amounts due from NPI's parking and foodservice contractors. A bad debt reserve of approximately $43,000 and $47,000 was recorded as of December 31, 2016 and 2015, respectively, related to tenant and event accounts receivable.

(e) Prepaid Expenses

Prepaid expenses consist primarily of prepayments for insurance coverage.

(f) Investments

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

(g) Property and Equipment

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

Leasehold improvements (the shorter of the lease term or estimated useful life)	7–40 years
Furniture	7 years
Equipment	2–20 years

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

NPI reviews its assets for impairment on an annual basis to determine whether events or changes in circumstances indicate whether the carrying amount of an asset may not be recoverable. NPI did not recognize any impairment charges during the years ended December 31, 2016 and 2015.

In 2014, NPI entered into a contract to purchase an observation wheel (the OW) to replace the Ferris Wheel. The contract price of 11.9 million euros was payable in four installments beginning in December 2014, with the final payment made in June 2016. NPI took delivery of the parts of the OW and installation had begun but was not complete at December 31, 2015, so associated costs were recorded as construction in progress at December 31, 2015. The OW began operating in May 2016 and the related assets were placed in service.

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

(h) Revenue

Revenue from services is recognized when the related services are provided. Revenue includes tenant rental revenue, parking fee revenue, amusement park and programming event revenue, revenue related to the use of exhibition facilities (event revenue), food and beverage revenue primarily related to event 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 promises to give (pledges), are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value at the date of donation. Contributions to be received subsequent to year-end are discounted at an appropriate rate commensurate with the risks involved. The amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, as the pledge is satisfied. An allowance for uncollectible promises to give is provided based upon management’s judgment and consideration of various factors, including prior collection history, type of contribution, and nature of fund-raising activity. No allowance for uncollectible pledges was recorded as of December 31, 2016 or 2015.

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

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

In May 2015, NPI announced a corporate partnership with a local Chicago organization that will provide $5 million to NPI over the course of four years. In exchange, NPI will provide the organization with naming rights to the Grand Ballroom for 20 years, and various other sponsorship opportunities over five years. The revenue, allocated to the various components of the agreement based on the individual relative selling prices estimated by NPI, will be recognized over the terms of the individual sponsorships. For the years ended December 31, 2016 and 2015, sponsorship revenue of $428,615 and $369,155, respectively, was recorded for this agreement in the accompanying financial statements.

(Continued)

In December 2016, NPI entered into a license and assignment agreement through which it will assign its existing cell tower license agreements and future management of current and new agreements to a third party for a term of 40 years. In exchange, NPI received an advance payment of approximately $4 million, and the right to a specified share of any revenue from new agreements generated by the third party. The advance payment has been recorded as deferred revenue in the accompanying financial statements and will be recognized as rental revenue on a straight-line basis over the life of the agreement. Any new revenue streams generated in the future will be recognized when earned. Under the terms of the agreement, NPI will continue to receive revenue from the existing licenses through February 2017. Therefore, the entire initial payment remains in deferred revenue at December 31, 2016.

(i) Promises to Give

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

Unconditional promises to give are estimated to be collected as follows at December 31, 2016 and 2015:

		2016	2015
Within one year	$	7,500,000	3,750,000
In one to three years		3,750,000	7,500,000
		11,250,000	11,250,000
Less discount to net present value at 5%		(178,571)	(527,211)
	$	11,071,429	10,722,789

At December 31, 2016 and 2015, one donor accounted for the total promises to give. The anticipated timing of donor payments was modified in January 2017 due to changes in the construction schedule.

(j) 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, 2016 and 2015. During 2015 and 2016, NPI was the subject of an examination by the Internal Revenue Service 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. However, the IRS review of potential unrelated business income is still in progress. NPI is no longer subject to examination by federal, state or local authorities for periods before 2013.

(k) 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.

(l) Adoption of New Accounting Standards

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

(m) Reclassifications

Certain 2015 financial statement line items have been reclassified to conform to the 2016 presentation.

(n) Subsequent Events

On April 13, 2017, the IRS informed NPI that the examination of NPI's 2013 federal income tax return had been completed, that the return was accepted as filed, and that NPI continues to qualify for exemption from federal income tax.

NPI has performed an evaluation of subsequent events through July 12, 2017, which is the date the financial statements were issued.

(2) Lease Agreement

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

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

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

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

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

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

- The Lease Agreement term is from July 1, 2011 through June 30, 2036, with four renewal options of 20 years each, for a total possible term of 105 years. The Lease Agreement requires NPI to pay MPEA rent of $1 per year and to operate the Pier in accordance with the Framework Plan. NPI has prepaid rent of $1 per year for the initial lease term of 25 years ending June 30, 2036.
- MPEA provided NPI with $60,000,000 in 2011 and 2012 to be used for implementation of the Framework Plan as defined in the Lease Agreement. MPEA may also make its bonding capacity available to NPI or to consent to financing the Approved Operations with debt obligations that extend beyond the term of the Lease Agreement.
- MPEA provided NPI an additional $55,000,000 in 2014 through 2016 to be used for implementation of the Framework Plan as defined in the Third Amendment to the Lease Agreement.
- MPEA loaned NPI $5,000,000 in 2011 to help fund the initial operating costs. NPI repaid the loan to the MPEA with payments of $2,500,000 in each of the years ended December 31, 2014 and 2015.
- Ownership of all personal property located on the Pier was transferred to NPI. NPI received parking, food service, theater, computer, and other miscellaneous equipment totaling approximately $1.7 million during the period ended December 31, 2011. Such equipment was recorded at its fair value as a contribution of personal property from MPEA and is depreciated over the estimated remaining useful life of the equipment at the date of transfer.
- NPI can terminate the Lease Agreement at any time. MPEA can terminate the agreement only upon default by NPI. Events of default include (a) failure by NPI to comply in any material respect with the Framework Plan, or with the terms of the Lease Agreement (if failure is not remedied within 90 days after written notice); (b) failure by NPI to pay the Promissory Note when due, and such failure continues for more than 60 days; (c) NPI abandons the premises or (d) NPI is bankrupt or insolvent.
- At termination, all assets, including the premises and revenue from all sources, must be returned to MPEA. If donations cannot be legally transferred due to the intention of the donor, NPI and MPEA must mutually agree to the disposition.

NPI has accounted for the Lease Agreement as an operating lease. NPI received $15,000,000 from MPEA during the year ended 2016 and $20,000,000 during the year ended December 31, 2015. As of December 31, 2016, NPI had no unspent cash related to the Lease Agreement. As of December 31, 2015,

(Continued)

NPI had $434,123 in unspent cash, which is reflected as restricted cash and a corresponding deposit liability in the accompanying statements of financial position.

Of the amount received from MPEA, in 2016, $14,303,968 was spent on leasehold improvements, $164,015 was spent on construction administration expenses related to implementation of the Framework Plan, and $966,140 was spent on fundraising expenses. Of the amount received from MPEA, in 2015, $23,547,862 was spent on leasehold improvements, $693,547 was spent on construction administration expenses related to implementation of the Framework Plan, and $619,620 was spent on fundraising expenses. Administrative expenses directly related to implementation of the Framework Plan are recorded in NPI's statements of activities as construction administration expense. NPI recorded MPEA reimbursement for Framework Plan expenses totaling $15,434,123 and $24,861,029 for the years ended December 31, 2016 and 2015, respectively, which corresponds to the total of construction administration expenses and fundraising expenses directly related to implementation of the Framework Plan and spending on leasehold improvements. The refundable landscaping deposit paid to the City of Chicago and charged to Framework Plan spending during 2013 was received in 2016, and was used for other Framework purposes in 2016.

In 2014, required environmental remediation was identified on certain land that NPI manages. As part of the Lease Agreement with MPEA, NPI is indemnified from bearing this cost. As of December 31, 2016 and 2015, NPI has recorded the costs incurred but not yet reimbursed of $732,753 and $507,265, respectively, as a receivable from MPEA.

(3) Investments

The following table summarizes the types of investments and total return on investments as of and for the years ended December 31, 2016 and 2015:

		2016	2015
Type of investments:			
Certificates of deposit	$	—	1,000,103
Domestic municipal bonds		—	2,066,594
Domestic equity securities		—	129,800
Corporate bonds:			
Domestic fixed-income securities		1,295,000	7,221,960
Foreign fixed-income securities		—	1,006,160
Total investments – at fair value	$	1,295,000	11,424,617
Return on investments:			
Interest income	$	73,419	63,853
Realized gain (loss) on sale of investments, net		(4,111)	1,747
Unrealized gain (loss) on investments, net		76,971	(42,692)
Total return on investments	$	146,279	22,908

		2016	2015
Reported as:			
Investment income	$	69,308	65,600
Unrealized gain (loss) on investments, net		76,971	(42,692)
Total return on investments	$	146,279	22,908

(4) Fair Value of Financial Instruments

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

NPI's financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued expenses, advance deposits, note payable to MPEA, and the deposit from MPEA for Framework Plan are carried at historical cost, which approximates their fair values because of the short-term nature of these instruments. There has been no change in valuation methodologies between 2015 and 2016.

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

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

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

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

(Continued)

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, 2016	
		Level 1	Level 2
Cash equivalents	$	—	17,059,785
Investments:			
Certificates of deposit	$	—	—
Domestic municipal bonds		—	—
Domestic equity securities		—	—
Corporate bonds:			
Domestic fixed-income securities		1,295,000	—
Foreign fixed-income securities		—	—
Total investments – at fair value	$	1,295,000	—
Liabilities:			
Derivative contracts – foreign currency exchange positions	$	—	—

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

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 2016 or 2015.

(Continued)

(5) Derivative Instruments

As discussed in note 1(g), in 2014, NPI entered into a contract to purchase an observation wheel (the OW) to replace the previous Ferris Wheel. The contract price of €11.9 million was payable in four installments beginning in December 2014 with the final payment made in June 2016.

NPI utilized derivative instruments to economically hedge its exposure to potential exchange rate increases of the euro (EUR) relative to the U. S. dollar (USD) for the period the OW payments were to be made over, from December 2014 to June 2016 (the Exposure Period). To ensure the actual cumulative cost of the euro payments did not exceed $15,000,000, on December 15, 2014 (the same day in which the purchase contract was entered), NPI executed four forward contracts to buy euro amounts deliverable on the installment dates during the Exposure Period.

In April 2016, the Exposure Period for the derivative hedge related to the final OW payment needed to be extended from April 2016 to June 2016. This required a termination of the old derivative and the issuance of a new derivative, resulting in a realized derivative loss on foreign currency transaction of approximately $450,000. Then, in June 2016, the final payment in euros was made to Dutch Wheels (the Seller), which generated an additional realized loss on foreign currency transaction of approximately $78,000. As of December 31, 2015, NPI had recorded a derivative liability related to this foreign currency position of $607,791, which reversed in 2016 resulting in a net derivative gain on foreign currency transaction of $80,048 for the year ended December 31, 2016.

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

(6) Note Payable to MPEA

In connection with the Lease Agreement, MPEA and NPI executed a promissory note dated July 1, 2011 (the Promissory Note) totaling $5,000,000. The Promissory Note bears no interest and was originally due and payable on July 1, 2014. The Promissory Note was amended on May 16, 2014 to extend the payment terms to $2,500,000 payable on or before December 15, 2014 and $2,500,000 payable on or before June 15, 2015. NPI paid MPEA $2,500,000 on December 15, 2014 and $2,500,000 on June 11, 2015. At December 31, 2016 and 2015, no balance was outstanding on the note.

(7) Long-Term Debt

Long-term debt outstanding at December 31, 2016 and 2015 consisted of the following:

	Interest rate	Fiscal year maturity		Amount December 31 2016	Amount December 31 2015
Illinois Finance Authority (IFA):					
Series 2014A Bonds [(a)]	2.90 %	2024	$	26,500,000	26,500,000
Series 2014B Bonds [(b)]	Variable	2023		19,250,000	435,144
Total bonds payable			$	45,750,000	26,935,144

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

(b) In December 2014, NPI was authorized to issue $20.0 million in IFA general obligation drawdown bonds, Series 2014B. The proceeds of the bonds may be used for capital projects subject to Lender approval, including $15.0 million earmarked for the construction of a live performance theater. The Series 2014B bonds are interest only through 2016, with principal payments commencing on January 1, 2017 and are payable in a lump sum on January 1, 2023. As of December 31, 2014, NPI had drawn $435,144 from Series 2014B bonds to fund the bond issuance costs of the Series 2014A and Series 2014B bonds. The remaining bond proceeds were drawn during 2016.

In February 2016, NPI entered into a new lease agreement with Chicago Shakespeare Theater (CST). Under the terms of the CST Lease, NPI agreed to fund $15.0 million towards certain improvements to the existing CST on the Pier.

Also in February 2016, a Construction Disbursement Agreement was executed among NPI, CST, Fifth Third Bank, and The Northern Trust Company (the Four Party Agreement). Under the Four Party Agreement, NPI's funds (not to exceed $15 million) will be used to pay for certain core improvements, while CST's funds will be used to fund all other improvements. The CST Lease grants NPI a security interest in the improvements if CST defaults, subject to the security interests of the financers of those improvements. Upon substantial completion, the improvements funded by NPI become the property of NPI.

During 2016, construction of the theater began and a total of $4,475,792 was drawn on Series 2014B bonds for theater construction. Of this amount, $500,000 was drawn by NPI to complete certain structural improvements needed and the remaining $3,975,792 was drawn by CST in accordance with the Four Party Agreement.

During December 2016, in accordance with the Third Amendment to the Additional Covenant Agreement under the bond and loan agreement with Fifth Third (the Third Amendment to the ACA), the remaining proceeds of Series 2014B bonds of $15,089,064 were drawn by NPI and placed in a restricted account at Fifth Third Bank. Of these proceeds, $10,524,208 is restricted for CST construction and $4,564,856 is restricted for other approved capital projects. In May 2016, in accordance with the Second Amendment to the Additional Covenant Agreement under the bond and loan agreement with Fifth Third, the completion date of the CST project was extended. The Third Amendment to the ACA extended the required completion date of the other approved capital projects. A principal payment of $750,000 on Series 2014B bonds was made in December 2016.

Deferred bond issuance costs had an unamortized balance of $323,756 and $378,242 at December 31, 2016 and 2015, respectively.

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

Required principal payments for the IFA bonds are as follows:

		Bonds payable
Year(s) ending December 31:		
2017	$	3,407,500
2018		3,418,500
2019		3,428,500
2020		3,437,500
2021		2,135,000
Thereafter		29,923,000
	$	45,750,000

Interest on the Series 2014A bonds is payable quarterly in arrears through January 1, 2024 at a fixed rate of 2.90%. Interest on borrowings during the construction period was capitalized and will be amortized over the life of the asset. The amount of interest capitalized for the years ended December 31, 2016 and 2015 was $354,269 and $721,316, respectively.

Interest on the Series 2014B bonds is payable quarterly in arrears through December 31, 2016 at a floating rate of interest of 1.65% plus 65.01% of the London Interbank Offered Rate (LIBOR) interest rate. From January 1, 2017 through January 1, 2023, the floating rate is 1.65% plus 65.01% of the LIBOR interest rate plus 35% of the difference between the Future WAL Swap Rate and 1.29%. At December 31, 2016 and 2015, the interest rate on the Series 2014B Bonds was 2.2049% and 1.8606%, respectively. Interest on borrowings during the construction period was capitalized and will be amortized over the lives of the related assets. The amount of interest capitalized for the year ended December 31, 2016 was $42,111. There was no interest capitalized in 2015.

Interest expense for the years ended December 31, 2016 and 2015, net of capitalized interest, was $494,881 and $120,435, respectively.

(8) Line of Credit

During 2016, NPI entered into a line of credit arrangement with Fifth Third Bank. The revolving note executed between NPI and Fifth Third has a one-year term that expires on April 20, 2017. The note carries a maximum possible balance of $1,500,000 and a variable interest rate of LIBOR plus 1.9%. The collateral for the line is the same as the collateral for the Series A and B bonds. During the year ended December 31, 2016, NPI made no draws on the line 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 $2,063 for these fees during the year ended December 31, 2016. All other financial covenants are incorporated by reference from the ACA.

(9) Employee Benefits and Retirement Plan

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

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

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

NPI contributed $331,000 to the Plan for 78 eligible employees during the year ended December 31, 2016 and $303,000 to the Plan for 78 eligible employees during the year ended December 31, 2015.

NPI also contributed to eight separate multiemployer pension, retirement, and annuity plans in 2016 and 2015. Contributions under all plans are based on collective bargaining agreements with the various trade unions. Pension and related contributions under the collective bargaining agreements totaled approximately $909,000 and $738,000 for the years ended December 31, 2016 and 2015, respectively.

(10) Restricted Net Assets

All temporarily restricted net assets at December 31, 2016 and 2015 are restricted by a donor for a building project. Such amounts will be released to unrestricted net assets when the long-lived assets are placed in service.

(11) Related-Party Transactions

MPEA provided and continues to provide certain services to NPI, primarily for contracted security personnel, utilities, and payroll-processing services. Costs for services purchased from the MPEA totaled approximately $5.5 million and $5.3 million for the years ended December 31, 2016 and 2015, respectively, and are included primarily in outsourced services and utilities in the accompanying statements of activities.

(12) Risk Management

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

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

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

(13) Commitments and Contingencies

In connection with its food service agreement with its food service manager and caterer, Chicago Signature Services, NPI is required to reserve 3.5% of gross foodservice receipts primarily for the replacement of small wares and equipment used in the foodservice operation. The funds can also be used for funding certain other foodservice-related activities. The balance in the reserve account as of December 31, 2016 and 2015 was approximately $237,000 and $94,000, respectively, and is included in restricted cash.

At December 31, 2015, NPI had an on-going dispute with a contractor and had accrued an estimate of that liability. During 2016, the dispute was resolved and the related accrual was used in settlement of the liability.