NAVY PIER, INC.

Financial Statements

December 31, 2013 and 2012

(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, 2013 and 2012, and the related statements of activities and cash flows for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years ended December 31, 2013 and 2012 in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
July 15, 2014

NAVY PIER, INC.

Statements of Financial Position

December 31, 2013 and 2012

Assets		**2013**	**2012**
Current assets:			
Cash and cash equivalents – unrestricted	$	17,628,982	14,237,600
Cash and cash equivalents – restricted		42,619,944	19,725,000
Investments – unrestricted		1,087,580	—
Investments – restricted		796,446	—
Accounts receivable – net of allowance for doubtful accounts of $20,422 and $35,000 as of December 31, 2013 and 2012, respectively.		1,236,768	1,641,854
Prepaid expenses		555,225	833,234
Total current assets		63,924,945	36,437,688
Noncurrent assets:			
Cash – restricted		—	36,358,074
Investments – unrestricted		1,058,406	—
Deposit – City of Chicago		207,750	—
Property and equipment:			
Construction in progress		12,119,615	923,295
Leasehold improvements		435,654	405,519
Equipment and other		2,577,590	2,190,637
Total property and equipment		15,132,859	3,519,451
Less accumulated depreciation		(1,566,832)	(889,772)
Total property and equipment, net		13,566,027	2,629,679
Total assets	$	78,757,128	75,425,441
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	8,165,177	6,805,874
Advance deposits		829,443	238,478
Note payable to MPEA		2,500,000	—
Deposit from MPEA for Framework Plan		43,211,146	19,725,000
Total current liabilities		54,705,766	26,769,352
Noncurrent liabilities:			
Deposit from MPEA for Framework Plan		—	36,170,791
Note payable to MPEA		2,500,000	5,000,000
Total liabilities		57,205,766	67,940,143
Unrestricted net assets		21,551,362	7,485,298
Total liabilities and net assets	$	78,757,128	75,425,441

See accompanying notes to financial statements.

NAVY PIER, INC.

Statements of Activities

Years ended December 31, 2013 and 2012

	2013	2012
Revenue:		
Retail	$ 13,622,690	14,482,341
Parking	9,643,584	9,683,208
Pier park amusements	6,296,056	6,663,969
Special events and entertainment	3,675,622	2,300,469
Use of exhibition facilities	4,751,632	3,641,624
Food and beverage	3,035,854	2,919,146
Theater	1,022,065	969,088
Sponsorship	2,440,729	2,007,812
Other	17,349	23,472
Total revenue	44,505,581	42,691,129
Expenses:		
Program:		
Salaries and benefits	8,853,696	10,581,171
Outsourced services	14,759,936	10,185,151
Other services	2,704,155	2,324,174
Utilities	2,909,356	3,125,067
Marketing	2,996,514	2,347,057
Equipment and supplies	1,279,055	1,558,703
Professional fees	1,291,834	2,040,747
Insurance	1,421,651	1,581,960
Miscellaneous	119,804	386,973
Total program expenses	36,336,001	34,131,003
Management and general:		
Salaries and benefits	3,115,861	2,836,872
Professional fees	981,406	1,051,655
Miscellaneous	59,790	71,253
Outsourced and other services	348,480	479,621
Equipment and supplies	330,417	112,273
Insurance	151,667	203,092
Utilities	61,881	47,603
Total management and general	5,049,502	4,802,369
Total expenses	41,385,503	38,933,372
Excess of revenue over expenses before development administration expense, depreciation expense, interest income, and investment income	3,120,078	3,757,757
Development administration expense	(1,146,835)	(2,355,327)
Depreciation expense	(677,061)	(608,319)
Interest income	30,515	68,522
Investment income	56,823	—
Excess of revenue over expenses	1,383,520	862,633
Other changes in unrestricted net assets:		
Unrealized loss on investments	(2,101)	—
Contribution of personal property from MPEA	—	37,374
MPEA reimbursement for Framework Plan expenses	12,684,645	3,278,623
Change in unrestricted net assets	14,066,064	4,178,630
Unrestricted net assets – beginning of year	7,485,298	3,306,668
Unrestricted net assets – end of year	$ 21,551,362	7,485,298

See accompanying notes to financial statements.

NAVY PIER, INC.

Statements of Cash Flows

Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in unrestricted net assets	$ 14,066,064	4,178,630
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Contribution of personal property from MPEA	—	(37,374)
MPEA reimbursement for Framework Plan expenses	(12,684,645)	(3,278,623)
Depreciation	677,061	608,319
Interest on investments	(122,373)	—
Net realized and unrealized losses on investments	67,651	—
Changes in assets and liabilities:		
Accounts receivable	405,086	393,626
Deposit – City of Chicago	(207,750)	—
Due from MPEA	—	213,500
Prepaid expenses	278,008	(199,346)
Accounts payable and accrued expenses	1,359,303	1,975,813
Advance deposits	590,965	(347,822)
Net cash provided by operating activities	4,429,370	3,506,723
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	50,402,769	—
Purchases of investments	(53,290,479)	—
Purchase of property and equipment	(11,613,408)	(1,387,631)
Net cash used in investing activities	(14,501,118)	(1,387,631)
Cash flows from financing activities –		
Deposit for Framework Plan from MPEA	—	22,500,000
Net cash provided by financing activities	—	22,500,000
Net (decrease) increase in cash and cash equivalents	(10,071,748)	24,619,092
Cash and cash equivalents – beginning of period	70,320,674	45,701,582
Cash and cash equivalents – end of period	$ 60,248,926	70,320,674

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. NPI maintains its accounts in accordance with the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by the donors. NPI has not received any donor-restricted funds and accordingly, reports only unrestricted net assets.

NPI considers operating the Pier as its only program, and reports the operations of the Pier as revenue and expenses before development administration expense, depreciation expense, and interest and investment income. Other changes in unrestricted net assets consist of 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 cash received from MPEA to be used for implementation of the Pier's Framework Plan, and amounts restricted for vendor reserve accounts, as further described in notes 2 and 9.

(d) Accounts Receivable

Accounts receivable consists 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 $20,000 and $35,000 was recorded as of December 31, 2013 and 2012, respectively, related to tenant and event accounts receivable.

(e) Prepaid Expenses

Prepaid expenses consist primarily of prepayments for insurance coverage.

(f) Investments

Investments in debt securities are measured at fair value based primarily on quoted market prices in the accompanying statements of financial position. Interest and realized gains and losses on sales of investments are reported as investment income while unrealized losses are reported separately in the accompanying statements of activities as a component of other changes in unrestricted net assets. Noncurrent investments have maturities of more than one year as of the date of the statements of financial position.

(g) Property and Equipment

Property and equipment consists 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. 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)	7–25 years
Furniture	7 years
Equipment	2–5 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 which 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, 2013 and 2012.

(h) Revenue

Revenue from services is recognized when the related services are provided. Revenues include tenant rental revenues, parking fee revenues, amusement park and special event revenues, revenues related to the use of exhibition facilities (event revenues), food and beverage revenues primarily related to event revenues, revenues from operation of a seasonal theater, and sponsorship revenues. Advance collections and deposits related to event revenues and sponsorships are recorded as advance deposits and are reflected as current liabilities in the accompanying statements of financial position.

(i) Income Taxes

NPI has received a determination letter from the Internal Revenue Service 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 Code (ASC) 740-10 *Income Taxes*. NPI is subject to income taxes only on income determined to be unrelated business income. The accompanying financial statements do not include any provision for income taxes or uncertain tax positions.

(j) Management's Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(k) Reclassifications

Certain 2012 financial statement line items have been reclassified to conform to the 2013 presentation.

(l) Subsequent Events

NPI has performed an evaluation of subsequent events through July 15, 2014, which is the date the financial statements were issued. See note 10.

(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 ended June 30, 2036.
- MPEA will give NPI $60,000,000 to be used for Approved Operations 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 will loan NPI $5,000,000 to help fund the initial operating costs.
- Ownership of all personal property located on the Pier will be transferred to NPI. Accordingly, 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 revenues from all sources, must be returned to MPEA. If donations cannot be legally transferred due to the intention of the donor, NPI and MPEA must mutually agree to the disposition.

NPI has accounted for the Lease Agreement as an operating lease. NPI received $0, $22,500,000 and $37,500,000 from MPEA during the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013 and 2012, NPI has unspent cash related to the Lease Agreement totaling $43,211,146 and $55,895,791, respectively, which is reflected as restricted cash and investments. Restricted cash also includes amounts received for foodservice contracts totaling $205,244 and $187,283 as of December 31, 2013 and 2012, respectively. NPI has recorded a corresponding deposit liability from the MPEA for the Framework Plan in the accompanying statements of financial position totaling $43,211,146 and $55,895,791 as of December 31, 2013 and 2012, respectively. Restricted cash and investments and the corresponding MPEA deposit liability that are expected to be expended in the next year are classified as current. The remaining funds are classified as noncurrent.

Of the amount received from MPEA, $11,330,060 was spent on leasehold improvements, $1,146,835 was spent on administrative expenses related to implementation of the Framework Plan, and $207,750 was spent on a refundable landscaping deposit paid to the City of Chicago during 2013. Of the amount received from MPEA, $923,296 was spent on leasehold improvements and $2,355,327 was spent on administrative expenses related to implementation of the Framework Plan in 2012. Administrative expenses directly related to implementation of the Framework Plan are recorded in NPI’s statements of activities as development administration expense. NPI recorded MPEA reimbursement for Framework Plan expenses totaling $12,684,645 and $3,278,623 for the years ended December 31, 2013 and 2012, respectively, which corresponds to the total of administrative expenses directly related to implementation of the Framework Plan, spending on leasehold improvements and the deposit.

(3) Investments

The following table summarizes the types of investments and total return on investments as of and for the year ended December 31, 2013. No funds were invested as of December 31, 2012.

Type of investments:		
U. S. Government, U.S. Government – guaranteed and agency securities	$	1,389,233
Foreign fixed-income securities		964,272
Domestic fixed-income securities		588,927
Total investments – at fair value	$	2,942,432
Return on investments:		
Interest income	$	122,373
Realized losses on sale of investments, net		(65,550)
Net unrealized loss on investments		(2,101)
Total return on investments	$	54,722
Reported as:		
Investment income	$	56,823
Net unrealized loss on investments		(2,101)
Total return on investments	$	54,722

(4) Fair Value of Financial Instruments

NPI accounts for its financial instruments in accordance with the fair value disclosure requirements of U.S. generally accepted accounting principles, 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.

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

Money market funds are carried at cost as an approximation of fair value.

Fixed maturity investments are carried at fair value, based upon quoted market prices.

Corporate bonds are carried at estimated fair value, based upon the reporting entity's own assumptions concerning the assumptions that the market participants would use in pricing the asset, such as matrix pricing and investment manager pricing.

NPI's cash equivalents and investments are accounted for at fair value using the fair value hierarchy as follows:

		December 31, 2013	
		Level 1	**Level 2**
Cash equivalents	$	—	26,608,677
Investments:			
U. S. Government, U.S. Government – guaranteed and agency securities	$	1,389,233	—
Foreign fixed-income securities		—	964,272
Domestic fixed-income securities		—	588,927
Total investments – at fair value	$	1,389,233	1,553,199

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 2013.

(5) 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 is due and payable on July 1, 2014. The maturity date may be extended only by written agreement between the MPEA and NPI in accordance with the Lease Agreement. The Promissory Note was amended on May 16, 2014 to extend the maturity date to be payable $2,500,000 on or before December 15, 2014 and $2,500,000 on or before June 15, 2015.

(6) 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). 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 Internal Revenue Service. 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%.

The 401(k) plan commenced effective August 1, 2013. Prior to the commencement of the 401(k) plan, NPI offered its full-time salaried employees a section 403(b) deferred compensation retirement Plan. The 403(b) plan was terminated effective August 15, 2013. There were no assets remaining in the 403(b) plan as of December 31, 2013. The terms of the 403(b) plan were similar to the 401(k) plan except NPI made a matching contribution equal to 100% of the first 4% of annual salary contributed by the employee, and contributed 2% of earnings for eligible employees for a total maximum contribution of 6%.

All assets of both plans are held in a trust in the name of the plans 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 $253,000 to the two plans for 80 eligible employees during the year ended December 31, 2013 and $232,000 for 60 eligible employees to the 403(b) plan during the year ended December 31, 2012.

NPI also contributed to 11 separate multiple-employer pension, retirement, and annuity plans in 2013 and 2012. 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 $967,000 and $653,000 for the years ended December 31, 2013 and 2012, respectively.

(7) Related-Party Transactions

MPEA provided and continues to provide certain services to NPI, including providing contracted security personnel, utilities, telecommunication services, payroll processing services, copier services, and equipment rental services. Costs for services purchased from the MPEA totaled approximately $5.2 million and $4.9 million for the years ended December 31, 2013 and 2012, respectively, and are included in fees and services expenses in the accompanying statements of activities.

(8) 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.

(9) Commitments and Contingencies

In connection with its foodservice 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, 2013 and 2012 was approximately $205,000 and $187,000, respectively, and is included in restricted cash.

(Continued)

(10) Subsequent Events

On April 16, 2014, the Lease Agreement between MPEA and NPI was amended to allow MPEA to deposit additional funds of up to $55,000,000 to the Capital Improvements Account to implement the Framework Plan.

On May 16, 2014, the Promissory Note between MPEA and NPI totaling $5,000,000 was amended to extend the due date, and to be payable in two installments of $2,500,000. The first installment is due on or before December 15, 2014 and the second installment is due on or before June 15, 2015. The accompanying statement of financial position as of December 31, 2013 reflects this amendment.