

# Field Museum of Natural History

Financial Statements as of and for the  
Years Ended December 31, 2007 and 2006,  
Additional Information for the  
Year Ended December 31, 2007, and  
Independent Auditors' Report

# FIELD MUSEUM OF NATURAL HISTORY

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Field Museum of Natural History:

We have audited the accompanying statements of financial position of the Field Museum of Natural History (the "Museum") as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Museum. 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Museum as of December 31, 2007 and 2006, and the changes in its net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the consolidated financial statements include investments valued at \$241,015,143 (38% of total assets) and \$222,227,785 (35% of total assets) as of December 31, 2007 and 2006, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates provided by external investment managers are examined through a valuation review process performed by management.

As discussed in Note 7 to the consolidated financial statements, the Museum implemented Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, and changed its method of accounting for its defined benefit pension plan in 2007.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the Museum taken as a whole. The additional information included in the Schedule of Operating Expenses by Department is presented for the purposes of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of the management of the Museum. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2008, on our consideration of the Museum's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Deloitte & Touche LLP*

May 5, 2008

# FIELD MUSEUM OF NATURAL HISTORY

## STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2007 AND 2006

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	2007	2006
<b>ASSETS</b>		
Cash	\$ 171,316	\$ 311,285
Interest and dividends receivable	669,398	414,517
Accounts receivable	3,002,744	9,461,839
Pledges receivable	15,024,141	17,611,812
Museum stores inventory	1,915,213	1,831,162
Investments	335,149,306	316,601,670
Museum property	278,607,069	276,931,379
Other assets	5,028,367	4,831,398
Collections	<u>1</u>	<u>1</u>
TOTAL	<u>\$ 639,567,555</u>	<u>\$ 627,995,063</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Line of credit	\$ 8,000,000	\$ 2,000,000
Accounts payable	3,932,593	5,936,671
Accrued expenses	6,849,577	5,195,362
Deferred revenue	9,233,642	8,853,826
Accrued pension cost	2,526,973	965,196
Asset retirement obligations	8,601,312	8,266,787
Notes payable	<u>179,000,000</u>	<u>179,300,000</u>
Total liabilities	<u>218,144,097</u>	<u>210,517,842</u>
NET ASSETS:		
Unrestricted:		
General operating	72,883,444	88,006,347
Board designated	246,594,956	230,917,877
Temporarily restricted	54,277,043	52,951,442
Permanently restricted	<u>47,668,015</u>	<u>45,601,555</u>
Total net assets	<u>421,423,458</u>	<u>417,477,221</u>
TOTAL	<u>\$ 639,567,555</u>	<u>\$ 627,995,063</u>

See notes to financial statements.

# FIELD MUSEUM OF NATURAL HISTORY

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES:</b>				
Chicago Park District property tax remittances	\$ 6,108,327	\$ -	\$ -	\$ 6,108,327
Government grants	3,194,382			3,194,382
Private grants and contracts	2,237,434			2,237,434
Investment return	13,915,000			13,915,000
Contributions	6,794,533	4,670,305	1,166,588	12,631,426
Sponsorships	1,929,236			1,929,236
Memberships	1,908,899			1,908,899
Admissions	8,756,011			8,756,011
Program service fees	1,644,483			1,644,483
Business enterprises (Museum stores, special events, and food services)	9,536,553			9,536,553
Other	962,456			962,456
<b>Total operating revenues</b>	<b>56,987,314</b>	<b>4,670,305</b>	<b>1,166,588</b>	<b>62,824,207</b>
<b>NET ASSETS RELEASED FROM RESTRICTIONS FOR OPERATIONS</b>	<b>4,672,208</b>	<b>(4,672,208)</b>		
<b>Total revenue and other support</b>	<b>61,659,522</b>	<b>(1,903)</b>	<b>1,166,588</b>	<b>62,824,207</b>
<b>OPERATING EXPENSES:</b>				
Collections and research	18,710,648			18,710,648
Environment, culture, and conservation	3,781,902			3,781,902
Exhibitions	10,775,869			10,775,869
Education and library	3,361,286			3,361,286
Other Museum services	16,203,369			16,203,369
Administration	2,473,703			2,473,703
Institutional advancement	3,505,474			3,505,474
Marketing and public relations	3,000,341			3,000,341
Business enterprises (Museum stores, special events, and food services)	6,158,852			6,158,852
Interest and amortization	7,351,536			7,351,536
<b>Total operating expenses</b>	<b>75,322,980</b>	<b>-</b>	<b>-</b>	<b>75,322,980</b>
<b>CHANGE IN NET ASSETS RESULTING FROM OPERATING REVENUES AND EXPENSES</b>	<b>(13,663,458)</b>	<b>(1,903)</b>	<b>1,166,588</b>	<b>(12,498,773)</b>
<b>NONOPERATING ITEMS:</b>				
Investment return	10,571,844	3,561,669		14,133,513
Government grants for capital improvements	18,008			18,008
Private grants and contracts for capital improvements	1,385,450			1,385,450
Capital campaign contributions	3,637,776	2,312,157		5,949,933
Capital campaign expenses	(3,423,760)			(3,423,760)
Proceeds from sales of collection items	750,000			750,000
Unrealized loss on interest rate swap	(1,625,156)			(1,625,156)
Net assets released from restrictions for:				
Capital improvements	2,950,980	(2,950,980)		
Capital campaign	5,040,962	(5,040,962)		
Change in donor designation	713,289	(213,289)	(500,000)	
Net assets transfer	(5,058,781)	3,658,909	1,399,872	
<b>Total nonoperating items</b>	<b>14,960,612</b>	<b>1,327,504</b>	<b>899,872</b>	<b>17,187,988</b>
<b>CUMULATIVE EFFECT OF ADOPTION OF FASB STATEMENT NO. 158</b>	<b>(742,978)</b>			<b>(742,978)</b>
<b>CHANGE IN NET ASSETS</b>	<b>554,176</b>	<b>1,325,601</b>	<b>2,066,460</b>	<b>3,946,237</b>
<b>NET ASSETS — Beginning of year</b>	<b>318,924,224</b>	<b>52,951,442</b>	<b>45,601,555</b>	<b>417,477,221</b>
<b>NET ASSETS — End of year</b>	<b>\$ 319,478,400</b>	<b>\$54,277,043</b>	<b>\$47,668,015</b>	<b>\$421,423,458</b>

See notes to financial statements.

# FIELD MUSEUM OF NATURAL HISTORY

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES:</b>				
Chicago Park District property tax remittances	\$ 6,954,368	\$ -	\$ -	\$ 6,954,368
Government grants	4,567,346			4,567,346
Private grants and contracts	3,423,836			3,423,836
Investment return	12,500,000			12,500,000
Contributions	6,240,403	6,897,716	5,568,617	18,706,736
Sponsorships	445,500			445,500
Memberships	2,892,709			2,892,709
Admissions	9,720,693			9,720,693
Program service fees	2,088,775			2,088,775
Business enterprises (Museum stores, special events, and food services)	16,270,265			16,270,265
Other	1,506,855			1,506,855
<b>Total operating revenues</b>	<b>66,610,750</b>	<b>6,897,716</b>	<b>5,568,617</b>	<b>79,077,083</b>
<b>NET ASSETS RELEASED FROM RESTRICTIONS FOR OPERATIONS</b>	<b>3,398,684</b>	<b>(3,398,684)</b>		
<b>Total revenue and other support</b>	<b>70,009,434</b>	<b>3,499,032</b>	<b>5,568,617</b>	<b>79,077,083</b>
<b>OPERATING EXPENSES:</b>				
Collections and research	16,557,134			16,557,134
Environment, culture, and conservation	5,016,503			5,016,503
Exhibitions	7,789,075			7,789,075
Education and library	2,727,411			2,727,411
Other Museum services	16,505,227			16,505,227
Administration	2,274,930			2,274,930
Institutional advancement	3,937,304			3,937,304
Marketing and public relations	1,885,658			1,885,658
Business enterprises (Museum stores, special events, and food services)	7,904,051			7,904,051
Interest and amortization	7,004,226			7,004,226
<b>Total operating expenses</b>	<b>71,601,519</b>	<b>-</b>	<b>-</b>	<b>71,601,519</b>
<b>CHANGE IN NET ASSETS RESULTING FROM OPERATING REVENUES AND EXPENSES</b>	<b>(1,592,085)</b>	<b>3,499,032</b>	<b>5,568,617</b>	<b>7,475,564</b>
<b>NONOPERATING ITEMS:</b>				
Investment return	23,790,731	2,579,803		26,370,534
Government grants for capital improvements	719,154			719,154
Private grants and contracts for capital improvements	3,700,955			3,700,955
Capital campaign contributions	8,167,332	3,468,302		11,635,634
Capital campaign expenses	(2,396,248)			(2,396,248)
Unrealized loss on interest rate swap	(1,077,642)			(1,077,642)
Net assets released from restrictions for:				
Capital improvements	1,108,851	(1,108,851)		
Capital campaign	5,307,884	(5,307,884)		
<b>Total nonoperating items</b>	<b>39,321,017</b>	<b>(368,630)</b>	<b>-</b>	<b>38,952,387</b>
<b>INCREASE IN NET ASSETS</b>	<b>37,728,932</b>	<b>3,130,402</b>	<b>5,568,617</b>	<b>46,427,951</b>
<b>NET ASSETS — Beginning of year</b>	<b>281,195,292</b>	<b>49,821,040</b>	<b>40,032,938</b>	<b>371,049,270</b>
<b>NET ASSETS — End of year</b>	<b>\$318,924,224</b>	<b>\$52,951,442</b>	<b>\$45,601,555</b>	<b>\$417,477,221</b>

See notes to financial statements.

# FIELD MUSEUM OF NATURAL HISTORY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 3,946,237	\$ 46,427,951
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Cumulative effect of change in accounting principle	742,978	
Depreciation	10,862,290	9,202,050
Net increase in realized/unrealized appreciation	(25,252,429)	(34,965,280)
Contributions permanently restricted for endowment	(1,166,588)	(5,568,617)
Changes in operating assets and liabilities:		
Interest and dividends receivable	(254,881)	(5,883)
Accounts receivable	6,459,095	(5,488,462)
Pledges receivable	2,587,671	516,038
Museum stores inventory	(84,051)	(239,260)
Prepaid pension cost		71,937
Other assets	(196,969)	(777,016)
Accounts payable	(1,889,059)	(2,318,289)
Accrued expenses	1,654,215	1,446,179
Deferred revenue	379,816	701,530
Accrued pension cost	818,799	965,196
	<u>(1,392,876)</u>	<u>9,968,074</u>
Net cash (used in) provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(74,768,754)	(199,055,381)
Proceeds from sales of investments	81,473,547	195,814,739
Purchases of Museum property	<u>(12,318,474)</u>	<u>(14,190,424)</u>
	<u>(5,613,681)</u>	<u>(17,431,066)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions permanently restricted for endowment	1,166,588	5,568,617
Borrowings under line of credit	27,815,000	3,000,000
Repayment of line-of-credit borrowings	(21,815,000)	(1,000,000)
Repayment of notes payable	<u>(300,000)</u>	<u></u>
	<u>6,866,588</u>	<u>7,568,617</u>
Net cash provided by financing activities		
NET (DECREASE) INCREASE IN CASH	(139,969)	105,625
CASH — Beginning of year	<u>311,285</u>	<u>205,660</u>
CASH — End of year	<u>\$ 171,316</u>	<u>\$ 311,285</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	<u>\$ 7,358,562</u>	<u>\$ 6,802,604</u>
Accounts payable for construction in progress	<u>\$ 854,525</u>	<u>\$ 969,544</u>
Asset retirement obligations revision in estimate	<u>\$ -</u>	<u>\$ 451,702</u>

See notes to financial statements.



# FIELD MUSEUM OF NATURAL HISTORY

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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### 1. BASIS OF PRESENTATION

The Field Museum of Natural History (the “Museum”) is a private institution providing collection-based research, exhibits, and public education. The Museum focuses on diversity in the world’s physical environments and cultures. The Museum’s collections amount to almost 23 million natural objects and man-made artifacts spanning the Museum’s four disciplines — Anthropology, Botany, Geology, and Zoology. The Museum’s collection is also the basis for the Environment, Culture, and Conservation endeavors.

The financial statements of the Museum for the years ended December 31, 2007 and 2006, have been prepared on the accrual basis of accounting. To ensure observance of limitations and restrictions placed on the use of resources available to the Museum, the accounts of the Museum are maintained in accordance with the principles of fund accounting. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into net asset categories. Accordingly, all financial transactions have been recorded by fund and reported by category.

The Museum classifies all business operations as revenues and expenses in the statements of activities except nonoperating items. Operating expenses are classified by functional categories that reflect Museum operations. Nonoperating items include government and private grants for capital improvement reimbursements, the excess of investment earnings under the total return concept (see Note 2), capital campaign activity, proceeds from sales of collection items, and the unrealized loss on interest rate swap, as these funds are not available for operating purposes.

Net assets released from restriction pledged to the capital campaign and for capital improvements are classified as nonoperating items.

**Net Assets** — Unrestricted net assets include the current operating, special purpose, unrestricted long-term investment, and property accounts. The current operating accounts consist of revenues available for support of Museum operations and the related expenses, along with related assets and liabilities. The special-purpose accounts include assets that have been designated by the Board of Trustees or Museum administration for special projects and the changes in net assets related thereto. Unrestricted long-term investment accounts include assets that have been designated by the Board of Trustees to function as endowments and the related changes in net assets. Property accounts include (i) the building, building improvements, equipment, and exhibits, as well as the depreciation thereto, (ii) accounts pertaining to Chicago Park District capital improvement reimbursements, and (iii) accounts related to the Museum’s notes payable to the Illinois Finance Authority (see Note 6).

Temporarily restricted net assets consist of contributions and investment income that have been restricted by donors for specified purposes or the existence of time restrictions on gifts. When restricted purposes have been met, such net assets are transferred as “net assets released from restrictions.”

Permanently restricted net assets include assets that are subject to restrictions of the gift requiring that the principal be invested in perpetuity and only the income be expended, as well as income that is similarly restricted.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Use of Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“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 could differ from those estimates.

**Cash** — Cash reflects currency and deposits in checking accounts with a financial institution that may be deposited or withdrawn without restriction or penalty.

**Museum Stores Inventories** — Inventories are stated at the lower of average cost or market.

**Investments and Investment Income** — Other than the Museum’s investment in a limited partnership, investments are reported at fair value. Equity securities with readily determinable fair values and debt securities are valued at the last sales price (if quotations are readily available) or at the closing bid price in the principal market in which such securities are normally traded (if no sales price is available). Certain fixed-income securities are valued based on dealer-supplied valuations.

The estimated fair values of equity securities that do not have readily determined fair values, and of other investments, are based on estimates provided by external investment managers and are examined through a valuation review process performed by management. The aggregate carrying value of such investments included within equity securities, fixed-income securities, hedged equity funds, and absolute return funds was \$241,015,143 and \$222,227,785 at December 31, 2007 and 2006, respectively. A range of possible values exists for these securities and, therefore, the estimated values may differ from the values that would have been used, had a ready market for these securities existed.

The investment in the limited partnership is stated at the appraisal value as of the date of the gift and will be adjusted on a periodic basis, as appropriate, to its estimated fair market value. Investment income is recorded in net assets appropriate to the restriction, as follows:

- a. The Museum utilizes the “total return” concept to allocate investment income earned on permanently restricted and unrestricted long-term investments.

Under the total return concept, a Board-approved spending rate (5.5% of a three-year moving average of endowment investments as of June 30, 2007 and 2006) is first satisfied from interest and dividend income, and the balance is provided, if necessary, from realized capital gains. Investment income is recorded as unrestricted, unless the donor-imposed restrictions on the use of such income.

- b. Unless specified by the donor, investment income earned on temporarily restricted investments is recorded in unrestricted net assets.

The Museum monitors the difference between the cost and estimated fair value of its investments. If any of the investments experience a decline in value that the Museum believes is other-than-

temporary, the Museum recognizes a realized loss in investment income in the statements of activities.

**Derivative Financial Instrument** — The Museum uses an interest rate swap to hedge overall exposure to variable rate debt. The swap agreement is not designated as a hedge for accounting purposes and is recorded at fair value.

**Properties** — Properties are stated at cost and are depreciated on a straight-line basis over their estimated useful lives, which range between 5 and 40 years. Interest on borrowings used to fund capital projects is capitalized and amortized over the life of the asset. Maintenance and repair costs are charged to expense as incurred and betterments are capitalized. Cost and the equivalent accumulated depreciation are eliminated from the accounts when an asset is fully depreciated.

**Deferred Revenue and Charges** — The Museum recognizes revenue and expenses of auxiliary activities during the period in which the activity is conducted.

Issuance costs associated with long-term notes payable are deferred and amortized ratably over the life of the related notes.

**Asset Retirement Obligations** — Asset retirement obligations include those for which the Museum has a legal obligation to perform an asset retirement activity; however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the Museum's control. The Museum records all known asset retirement obligations for which the fair value of the liability can be reasonably estimated, including certain obligations relating to regulatory remediation.

**Collections** — The Museum's collections are made up of artifacts of historical, cultural, or scientific significance that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be deposited in the endowment with earnings to be used to acquire other items for collections or provide for the direct care of existing collections.

In accordance with the practice generally followed by museums, the value of objects in the collections is excluded from the financial statements; collections are reflected in the accompanying financial statements at a nominal value of \$1. Such collections were acquired through purchases and contributions since the Museum's inception. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as decreases in temporarily restricted net assets, if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in net assets.

During 2007, the Museum sold collection items for \$750,000. In accordance with Museum policy, the proceeds were deposited in the Board-designated endowment with earnings to be used for future collection acquisitions. No collection items were sold during 2006.

**Contributions** — Contributions are recognized as revenue upon the earlier of the receipt of a donor's unconditional written pledge to contribute or upon receipt of the contribution. The contributions are classified based upon the existence or absence of donor-imposed restrictions.

**Contributed Services** — The Museum records certain types of in-kind support, including professional services, as contribution revenue. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses.

A substantial number of unpaid volunteers have made significant contributions of their time in the furtherance of the Museum's programs. Such services do not meet the criteria for recognition as a contribution as described above and, therefore, their value is not reflected in the accompanying financial statements.

**Chicago Property Tax Revenues** — The Museum receives support from property taxes that are collected by the Chicago Park District. These tax revenues are accrued to match the fiscal year allocation by the Chicago Park District.

**Income Taxes** — The Museum is exempt from income taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code and comparable Illinois statute.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The Museum adopted FIN 48 for the year ended December 31, 2007. The adoption had no impact on the financial statements.

**Fair Value of Financial Instruments** — The Museum's financial instruments include cash, interest and dividends receivable, accounts receivable, pledges receivable, investments, accounts payable, and notes payable. The fair values of cash, interest and dividends receivable, and investments are based upon market quotes (see Note 3). The fair values of accounts receivable, pledges receivable, accounts payable, and notes payable are estimated by management to approximate their carrying values at December 31, 2007 and 2006.

**Institutional Advancement** — Institutional advancement consists of expenses related to fund-raising activities, the membership program, and activities of Museum support groups.

**Functional Allocation of Expenses** — The costs of providing Museum programs and administration have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated to the various functions to the extent possible.

**Pension Plan** — In September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS No. 158 requires an entity to recognize the overfunded or underfunded status of a defined benefit pension plan as an asset or liability in its statement of financial position. The Museum adopted SFAS No. 158 as of December 31, 2007, resulting in a cumulative effective charge to unrestricted net assets of \$742,978.

**Net Asset Transfers** — During 2007, the Museum recorded an out-of-period adjustment to the financial statements resulting from the accounting in prior years for certain endowment earnings as (1) unrestricted when there was a donor restriction on the earnings or (2) temporarily restricted when no donor restriction existed. This adjustment is reflected as net asset transfers in the financial statements. Donor funds were spent consistent with original restrictions during this period.

**Accounting Pronouncements** —In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*. SFAS No. 157 redefines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Museum is currently evaluating the impact of adopting this statement on the financial statements.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*. SFAS No. 159 provides entities an option to report selected financial assets at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Museum is currently evaluating the impact of adopting this statement on the financial statements.

### 3. INVESTMENTS

Investments at December 31, 2007 and 2006, consisted of the following:

	<b>2007</b>	<b>2006</b>
Money market funds	\$ 1,548,720	\$ 15,750,814
Equity securities	154,382,710	141,283,045
Fixed-income securities	48,516,699	34,263,603
Hedged equity funds	60,053,684	57,562,420
Absolute return funds	68,887,493	65,981,788
Investment in limited partnership	<u>1,760,000</u>	<u>1,760,000</u>
Total	<u>\$ 335,149,306</u>	<u>\$ 316,601,670</u>

The following table is a summary of investments where cost basis exceeds fair value, aggregated by investment category and length of time the individual securities have been in a continuous loss position. Based upon analysis and evaluation, management has determined the declines in fair value are temporary and the investments are not impaired at December 31, 2007. The unrealized loss has been recognized in investment income in the statements of activities.

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Equity securities	\$ 37,892,012	\$ (2,390,672)	\$ -	\$ -	\$ 37,892,012	\$ (2,390,672)
Fixed income securities	<u>57,752</u>	<u>(545)</u>	<u>                    </u>	<u>                    </u>	<u>57,752</u>	<u>(545)</u>
Total	<u>\$ 37,949,764</u>	<u>\$ (2,391,217)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,949,764</u>	<u>\$ (2,391,217)</u>

A summary of the investment return and its classification for the years ended December 31, 2007 and 2006, in the statements of activities is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
For the year ended December 31, 2007:				
Interest and dividends	\$ 3,326,732	\$ 425,229	\$ -	\$ 3,751,961
Net realized gains	14,510,666	2,098,228		16,608,894
Change in net unrealized gains	7,654,213	989,322		8,643,535
Investment manager fees	<u>(955,877)</u>			<u>(955,877)</u>
Total return on investments	24,535,734	3,512,779	-	28,048,513
Investment return reclassified based on donor-imposed restrictions — interest and dividends	<u>(48,890)</u>	<u>48,890</u>		
Total return reported in the statement of activities	<u>\$ 24,486,844</u>	<u>\$ 3,561,669</u>	<u>\$ -</u>	<u>\$ 28,048,513</u>
Classified as follows:				
Operating revenues	\$ 13,915,000	\$ -	\$ -	\$ 13,915,000
Nonoperating items	<u>10,571,844</u>	<u>3,561,669</u>		<u>14,133,513</u>
Total	<u>\$ 24,486,844</u>	<u>\$ 3,561,669</u>	<u>\$ -</u>	<u>\$ 28,048,513</u>
For the year ended December 31, 2006:				
Interest and dividends	\$ 4,735,385	\$ 39,726	\$ -	\$ 4,775,111
Net realized gains	17,914,434	165,919		18,080,353
Change in net unrealized gains	16,751,848	133,079		16,884,927
Investment manager fees	<u>(869,857)</u>			<u>(869,857)</u>
Total return on investments	38,531,810	338,724	-	38,870,534
Investment return reclassified based on donor-imposed restrictions — interest and dividends	<u>(2,241,079)</u>	<u>2,241,079</u>		
Total return reported in the statement of activities	<u>\$ 36,290,731</u>	<u>\$ 2,579,803</u>	<u>\$ -</u>	<u>\$ 38,870,534</u>
Classified as follows:				
Operating revenues	\$ 12,500,000	\$ -	\$ -	\$ 12,500,000
Nonoperating items	<u>23,790,731</u>	<u>2,579,803</u>		<u>26,370,534</u>
Total	<u>\$ 36,290,731</u>	<u>\$ 2,579,803</u>	<u>\$ -</u>	<u>\$ 38,870,534</u>

#### 4. MUSEUM PROPERTY

Museum property at December 31, 2007 and 2006, consisted of the following:

	<b>2007</b>	<b>2006</b>
Building and building improvements	\$ 275,734,592	\$ 272,558,431
Exhibit hall improvements (excluding artifacts and historical treasures)	89,599,670	71,096,810
Research and office equipment	<u>11,652,085</u>	<u>10,538,749</u>
Total property and equipment	376,986,347	354,193,990
Less accumulated depreciation	<u>(99,585,929)</u>	<u>(89,058,164)</u>
Net depreciable property and equipment	277,400,418	265,135,826
Construction in progress	<u>1,206,651</u>	<u>11,795,553</u>
Net property and equipment	<u>\$ 278,607,069</u>	<u>\$ 276,931,379</u>

The Museum operates on land owned by the Chicago Park District and made available to the Museum at no charge. The value of this arrangement is not readily determinable and, accordingly, is not reflected in the accompanying financial statements.

At December 31, 2007, the Museum had property construction in progress that will cost approximately \$4.4 million to complete.

The Museum has an obligation under the City of Chicago Municipal Code to make changes to its fire suppression systems. The entire building is required to be in compliance with the code by January 1, 2016. The costs of these changes will be approximately \$12.5 million and will be capitalized as incurred.

Asset retirement obligations for environmental remediation at December 31, 2006, were adjusted during 2007 as follows:

Balance — January 1, 2007	\$ 8,266,787
Accretion expense	<u>334,525</u>
Balance — December 31, 2007	<u>\$ 8,601,312</u>

#### 5. PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges and revenue of the appropriate net asset category. Pledges are recorded after discounting to the present value of the expected future cash flows using discount rates ranging between 2.68% and 4.70%.

Pledges at December 31, 2007, are expected to be realized in the following periods:

Due within one year	\$ 7,243,002
Due between two to five years	8,504,252
Due after five years	<u>62,500</u>
	15,809,754
Allowance for uncollectible accounts	(379,434)
Present value discount	<u>(406,179)</u>
Net pledges receivable	<u>\$ 15,024,141</u>

## 6. NOTES PAYABLE

Notes payable at December 31, 2007 and 2006, consist of the following amounts due to the Illinois Finance Authority, which issued bonds on the Museum's behalf:

	<b>Original Principal</b>	<b>Principal Outstanding 2007</b>	<b>Principal Outstanding 2006</b>	<b>Maturity Date</b>
Series 2002	\$ 90,000,000	\$ 90,000,000	\$ 90,000,000	November 1, 2036
Series 2000	30,000,000	29,800,000	30,000,000	November 1, 2034
Series 1998	29,000,000	28,900,000	29,000,000	November 1, 2032
Series 1990	20,000,000	20,000,000	20,000,000	November 1, 2025
Series 1985	<u>17,000,000</u>	<u>10,300,000</u>	<u>10,300,000</u>	November 1, 2025
Total	<u>\$ 186,000,000</u>	<u>\$ 179,000,000</u>	<u>\$ 179,300,000</u>	

The Adjustable Rate Demand Revenue Bonds, Series 2000, 1998, and 1990, have adjustable methods of interest rate determination, demand features, and interest payment dates. The Series 1990 Bonds are currently in a commercial paper rate mode, and the Series 1998 and 2000 Bonds are in a weekly rate mode. As of December 31, 2007 and 2006, the Series 1990 Bonds bore interest of 3.45% and 3.63%, respectively. As of December 31, 2007 and 2006, the Series 1998 Bonds bore interest of 3.43% and 3.95%, respectively. As of December 31, 2007 and 2006, the Series 2000 Bonds bore interest of 3.43% and 3.95%, respectively.

The Variable Rate Demand Bonds, Series 1985, are subject to redemption beginning November 1, 2016, with sinking fund payments each year until maturity. These bonds are currently in a weekly rate mode. The bonds outstanding at December 31, 2007 and 2006, bore interest of 3.43% and 3.97%, respectively.

The Series 1985, prior to election to convert to a fixed rate of interest, are secured by credit facilities issued by The Northern Trust Company. In addition, the Series 1985 Bonds are secured by deposits held by the Bond Trustee in a Debt Service Reserve Fund and a Security Fund. The Series 1990 and 1998 Bonds, prior to election to convert to a fixed rate of interest, are secured by credit facilities issued by Bank of America. The Series 2000 Bonds, prior to conversion to a fixed rate of interest, are secured by a credit facility issued by JPMorgan Chase.



The Series 2002 was issued September 12, 2002, as Adjustable Medium Term Revenue Bonds. The bonds are rated A by Standard & Poor's and A2 by Moody's, and are not secured by a Letter of Credit. The initial adjustable rate periods end November 1, 2009 through November 1, 2016, and the Bonds bear interest at an initial rate of 3.70% to 4.75%, depending on duration. The current blended rate is 4.34%, and interest is payable each November 1 and May 1.

Assets held for debt service totaled \$1,148,438 and \$1,238,494 at December 31, 2007 and 2006, respectively, and are reported with investments in the statements of financial position.

The total interest costs incurred on these bonds in 2007 and 2006 was \$6,998,651 and \$6,921,820, respectively. Capitalized interest is classified as a depreciable asset within property and equipment.

The Museum entered into an interest rate swap agreement in September 2005 to hedge variable interest rate exposure. The agreement, which expires on November 1, 2032, effectively fixes the interest rate on a notional value of \$45 million at 3.258% through October 31, 2008, and 4.369% from November 1, 2008 to November 1, 2032. This agreement is considered a derivative financial instrument and is reported at its fair value as a liability of \$3,207,591 and \$1,582,435 at December 31, 2007 and 2006, respectively. The fair value is recorded in accrued liabilities in the statements of financial position. The net change in fair value of the agreement since inception is reported as a separate line item in the nonoperating section of the statements of activities. The differential to be paid is recognized as an adjustment to interest expense, and the related amount payable to the counterparty is included in accounts payable.

## **7. PENSION PLAN**

The Museum sponsors a defined benefit pension plan (the "Plan") covering substantially all of its employees that provides pension benefits based on years of service and average compensation, as determined under the Plan. The Museum's funding policy is to contribute amounts necessary to maintain the long-term stability of the Plan.

The change in benefit obligations, change in plan assets, and the composition of the amounts recognized in the accompanying statements of financial position for the years ended December 31, 2007 and 2006, is as follows:

	<b>2007</b>	<b>2006</b>
Accumulated benefit obligation	<u>\$ 13,953,820</u>	<u>\$ 13,321,497</u>
Change in benefit obligation:		
Benefit obligation — beginning of year	\$ 16,743,722	\$ 16,037,960
Service cost	1,068,848	1,161,877
Interest cost	927,736	889,010
Plan amendments		22,367
Actuarial loss (gain)	171,966	(678,501)
Benefits paid	<u>(684,535)</u>	<u>(688,991)</u>
Benefit obligation — end of year	<u>\$ 18,227,737</u>	<u>\$ 16,743,722</u>
Change in plan assets:		
Fair value of plan assets — beginning of year	\$ 15,286,940	\$ 13,963,445
Actual return on plan assets	1,098,359	2,012,486
Employer contribution		
Benefits paid	<u>(684,535)</u>	<u>(688,991)</u>
Fair value of plan assets — end of year	<u>\$ 15,700,764</u>	<u>\$ 15,286,940</u>
Funded status	\$ (2,526,973)	\$ (1,456,782)
Unrecognized net actuarial loss		380,946
Unrecognized prior-service cost		<u>110,640</u>
Net amount recognized — accrued pension cost	<u>\$ (2,526,973)</u>	<u>\$ (965,196)</u>

In accordance with SFAS No. 158 adopted by the Museum as of December 31, 2007, the pension plan items not previously recognized as a component of periodic pension, but included as a cumulative separate charge to net assets for the year ended December 31, 2007, are as follows:

Net actuarial loss	\$ 641,073
Prior service cost	<u>101,905</u>
Net amount recognized — cumulative effect	<u>\$ 742,978</u>

The components of net periodic benefit costs for the years ended December 31, 2007 and 2006, are as follows:

	<b>2007</b>	<b>2006</b>
Service cost	\$ 1,068,848	\$ 1,161,877
Interest cost	927,736	889,010
Expected return on plan assets	(1,186,520)	(1,082,943)
Amortization of prior-service cost	8,735	7,360
Amortization of net loss	<u>                    </u>	<u>61,829</u>
Net periodic pension cost	<u>\$ 818,799</u>	<u>\$ 1,037,133</u>

The estimated net actuarial loss and prior service cost for the defined benefit pension plan that will be amortized into net periodic benefit cost during the 2008 fiscal year are \$0 and \$8,736, respectively.

The following table presents the key actuarial assumptions used in developing the data:

	<b>2007</b>	<b>2006</b>
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	6.00 %	5.75 %
Rate of compensation increase	4.50	4.00
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:		
Discount rate	5.75	5.50
Expected return on plan assets	8.00	8.00
Rate of compensation increase	4.00	4.00

The Museum determines the long-term expected rate of return on plan assets by examining historic capital market returns, correlations between asset classes, and the Plan's normal asset allocation. Current and near-term market factors, such as inflation and interest rates, are then evaluated to arrive at the expected return on plan assets. Peer group or benchmarking data are also reviewed to ensure a reasonable and appropriate assumption.

The following table represents the Museum's estimated future benefit payments in each of the next five years and in the aggregate for the five fiscal years thereafter:

Estimated future benefit payments:	
2008	\$ 1,039,000
2009	1,079,000
2010	1,320,000
2011	1,146,000
2012	1,353,000
2013-2017	7,994,000

The following table presents the Museum's pension plan asset allocation at December 31, 2007 and 2006, by asset category:

	<b>2007</b>	<b>2006</b>	<b>Policy Range</b>
Cash and cash equivalents	1 %	4 %	0–5%
Equity securities	71	79	50–90
Fixed-income securities	28	17	20–40
High-yield funds	<u>        </u>	<u>        </u>	0–10
Total	<u>100 %</u>	<u>100 %</u>	

The Museum's investment approach is based on modern portfolio theory. Multiple asset classes are implemented in order to obtain the benefits of diversification and maximize long-term return for a given level of risk. Risk tolerance is developed by reviewing the funded status of the Plan, duration of the Plan liabilities, the income and liquidity requirements, legal constraints, and the financial condition of the Museum. The investment portfolio comprises a diversified combination of cash, equity securities, fixed income securities, and high-yield funds. The allocation among equity securities, fixed-income securities, high-yield funds, and cash is determined by prevailing market conditions and relative valuations among asset classes. The Plan's financial condition is monitored on an ongoing basis by means of quarterly investment portfolio reviews, an annual independent actuarial valuation, and periodic assets/liability studies.

The Museum does not expect to contribute to its pension plan in 2008.

## **8. LINE OF CREDIT**

The Museum has two agreements for unsecured lines of credit for \$10,000,000 and \$20,000,000, respectively. The agreements bear interest at LIBOR, plus 0.5% and LIBOR, plus 0.45% (5.295% at December 31, 2007), respectively. Interest on the outstanding balance is due monthly. The Museum is not to exceed \$15,000,000 borrowed without Board of Trustee approval. Total interest costs incurred on the line of credit in 2007 and 2006 were \$280,779 and \$4,318, respectively. At December 31, 2007, \$8,000,000 was borrowed against the lines of credit. At December 31, 2006, \$2,000,000 was borrowed against the line of credit.

## **9. RELATED-PARTY TRANSACTIONS**

The Museum Campus Corporation (the "Campus") is a tax-exempt organization consisting of the Field Museum, Shedd Aquarium, and the Adler Planetarium, whose purpose is to attract visitors to the Museum Campus' centrally located facilities. As of December 31, 2007 and 2006, the Museum has no receivable due from or payable to the Campus.

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## **ADDITIONAL INFORMATION**

# FIELD MUSEUM OF NATURAL HISTORY

## SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT FOR THE YEAR ENDED DECEMBER 31, 2007 (With Comparative Totals for 2006)

	Salaries and Wages	Pension and Employee Benefits	Cost of Sales	Supplies	Postage, Freight, and Miscellaneous	Travel, Dues, and Meetings	Printing and Publications	Professional and Outside Services	Utilities	Depreciation	Repairs and Maintenance	Interest and Amortization	Exhibits and Equipment	2007 Total	2006 Total
COLLECTIONS AND RESEARCH:															
Anthropology	\$ 1,869,455	\$ 637,952	\$ -	\$ 386,837	\$ 130,280	\$ 308,599	\$ 5,775	\$ 452,436	\$ 363,997	\$ 1,622,049	\$ -	\$ -	\$ 10,059	\$ 5,787,439	\$ 4,445,289
Botany	1,087,371	393,881		136,907	84,868	142,737	3,535	62,424	134,122	606,115			2,688	2,654,648	2,561,308
Geology	1,113,993	422,969		159,406	69,291	72,823	8,271	18,845	148,949	674,354	21,020			2,709,921	2,817,728
Zoology	2,248,915	801,836		403,820	139,620	296,509	9,096	310,743	398,710	1,801,841			161,405	6,572,495	6,125,521
Biodiversity synthesis center	55,433	22,306		18,625	6,722	32,212		11,406						146,704	
Scientific support	120,267	36,314		353,694	192,768	19,924		12,133	8,981	39,628	55,169		563	839,441	607,288
Total collections and research	6,495,434	2,315,258	-	1,459,289	623,549	872,804	26,677	867,987	1,054,759	4,743,987	76,189	-	174,715	18,710,648	16,557,134
ENVIRONMENT, CULTURE, AND CONSERVATION:															
Environmental conservation program	986,255	359,126		76,090	29,288	196,496	12,977	1,268,827	11,975	43,280				2,984,314	4,082,463
Center for cultural understanding and change	444,109	140,465		9,098	18,501	22,613	7,901	131,436	4,750	18,715				797,588	934,040
Total environment, culture, and conservation	1,430,364	499,591	-	85,188	47,789	219,109	20,878	1,400,263	16,725	61,995	-	-	-	3,781,902	5,016,503
EXHIBITIONS	2,168,723	825,905		490,419	639,362	888,759	61,632	587,288	828,369	3,743,508	540,879		1,025	10,775,869	7,789,075
EDUCATION AND LIBRARY:															
Education	812,457	284,508		116,403	24,523	203,319	95,364	291,721	33,743	144,978	2,568			2,009,584	1,616,885
Library	434,175	158,447		32,894	14,067	16,729	325,594	198,864	30,746	139,078	1,108			1,351,702	1,110,526
Total education and library	1,246,632	442,955	-	149,297	38,590	220,048	420,958	490,585	64,489	284,056	3,676	-	-	3,361,286	2,727,411
OTHER MUSEUM SERVICES:															
Finance	791,075	289,050		8,281	6,819	10,027	1,847	23,942	3,458	11,191	5,239			1,150,929	1,224,977
Human resources	316,154	108,024		18,002	12,924	125,915	5,805	53,356	7,233	27,807				675,220	653,326
Protection services	1,074,828	393,591		53,059	362	9,371	408	299,103	10,928	31,490	60,735			1,933,875	1,909,102
Guest relations	760,801	229,143		47,482	4,062	6,869	24,985	102,172	10,055	38,510	608			1,224,687	1,391,083
Housekeeping	657,438	239,963		155,136	165		408	407,190	6,169	22,046	1,301		354	1,490,170	1,314,786
Facility planning and operations	923,047	338,714		206,675	343	4,935	2,150	1,211,133	273,459	1,246,093	448,377		7,969	4,662,895	4,402,087
Technology	659,687	233,294		164,687	9,336	19,688	295	168,007	34,123	30,653			3,845	1,323,615	1,350,949
General services	314,833	936,529		69,159	620,218	161,394	12,807	1,475,516	30,052	77,044	44,412		14	3,741,978	4,258,917
Total other Museum services	5,497,863	2,768,308	-	722,481	654,229	338,199	48,705	3,740,419	375,477	1,484,834	560,672	-	12,182	16,203,369	16,505,227
ADMINISTRATION	1,336,815	362,386		14,313	14,751	146,737	20,400	540,546	12,574	22,306	2,360		515	2,473,703	2,274,930
INSTITUTIONAL ADVANCEMENT:															
Development	453,559	162,675		34,301	35,201	23,755	140,951	494,903	26,869	115,527	42,738		701	1,531,180	1,383,766
Auxiliary groups	174,197	63,459		20,666	12,833	30,237	61,359	390,524	3,273	11,234				767,782	751,405
Membership	374,064	135,811		13,397	87,806	23,142	114,475	434,233	8,214	15,370				1,206,512	1,802,133
Total institutional advancement	1,001,820	361,945	-	68,364	135,840	77,134	316,785	1,319,660	38,356	142,131	42,738	-	701	3,505,474	3,937,304
MARKETING AND PUBLIC RELATIONS	516,895	210,963		14,332	26,689	23,530	118,573	2,053,432	4,531	15,016	16,380			3,000,341	1,885,658
BUSINESS ENTERPRISES	1,645,559	502,458	2,464,258	59,406	313,355	74,933	9,752	633,779	88,365	364,457	2,530			6,158,852	7,904,051
INTEREST AND AMORTIZATION												7,351,536		7,351,536	7,004,226
TOTAL EXPENSES 2007	\$21,340,105	\$8,289,769	\$2,464,258	\$3,063,089	\$2,494,154	\$2,861,253	\$1,044,360	\$11,633,959	\$2,483,645	\$10,862,290	\$1,245,424	\$7,351,536	\$189,138	\$75,322,980	
TOTAL EXPENSES 2006	\$20,782,014	\$8,149,530	\$4,041,508	\$2,447,706	\$1,948,909	\$2,322,737	\$1,331,261	\$11,318,401	\$2,209,143	\$ 9,202,050	\$ 822,243	\$7,004,226	\$ 21,791		\$71,601,519