The Art Institute of Chicago

Consolidated Financial Statements as of and for the Years Ended June 30, 2012 and 2011, and Independent Auditors' Report

THE ART INSTITUTE OF CHICAGO

Table of Contents

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA
Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Art Institute of Chicago:

We have audited the consolidated statements of financial position of The Art Institute of Chicago (the "Institute") as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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 Institute'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Institute, as of June 30, 2012 and 2011, and the changes in its net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 27, 2012

THE ART INSTITUTE OF CHICAGO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2012 AND 2011
(In thousands)

	2012	2011
Assets:		
Cash and cash equivalents	$ 3,142	$ 3,850
Accounts and investment income receivable	9,674	9,656
Contributions receivable	48,569	58,407
Inventories	5,569	7,122
Prepaid expenses and other assets	11,486	24,294
Investments	803,266	837,797
Property and equipment, net	477,870	481,916
Total assets	**$ 1,359,576**	**$ 1,423,042**
Liabilities and net assets:		
Liabilities:		
Accounts payable and other liabilities	$ 37,919	$ 41,824
Deferred revenues and other	19,561	20,307
Refundable advances	3,401	3,355
Pension liability	64,545	40,709
Notes payable	271,119	302,887
Total liabilities	**396,545**	**409,082**
Net assets:		
Unrestricted	76,549	115,650
Temporarily restricted	565,689	585,423
Permanently restricted	320,793	312,887
Total net assets	**963,031**	**1,013,960**
Total liabilities and net assets	**$ 1,359,576**	**$ 1,423,042**

See notes to consolidated financial statements.

THE ART INSTITUTE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(In thousands)

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 120,470	$	$	$ 120,470
Student aid	(31,591)			(31,591)
Tuition and student program fees, net	88,879	-	-	88,879
Contributions	23,725	13,909	8,002	45,636
Chicago Park District tax	5,537			5,537
Museum admissions	9,529			9,529
Membership dues	6,725			6,725
Special exhibitions, catalogues, and other revenues	227			227
Other program revenues	8,909			8,909
Investment return designated for current use	13,700	23,652		37,352
Auxiliary activities	25,075			25,075
Other	3,511			3,511
Net assets released from restrictions	37,859	(37,859)		-
Total operating revenue, gains, and other support	223,676	(298)	8,002	231,380
Expenses and losses:				
Programs services:				
Curatorial, libraries, and collections	30,994			30,994
Special exhibitions	4,408			4,408
Museum education	2,512			2,512
Other programs	7,337			7,337
Instructional and academic	77,045			77,045
Auxiliary activities	16,754			16,754
Managerial and general:				
General administration	23,852			23,852
Depreciation	26,668			26,668
Interest and debt issuance cost amortization	12,100			12,100
Member development	2,260			2,260
Fund raising	7,195			7,195
Total expenses and losses	211,125	-	-	211,125
Change in net assets from operations before debt defeasance	12,551	(298)	8,002	20,255
Loss on debt defeasance	(209)			(209)
Change in net assets from operations	**12,342**	**(298)**	**8,002**	**20,046**
Nonoperating revenue, expenses, support, gains, and losses:				
Proceeds from the sale of art objects		9,453		9,453
Contributions for the purchase of art objects		1,786	208	1,994
Net assets released to fund acquisition of art objects	10,200	(10,200)		-
Investment return designated for art purchases	2	3,225	40	3,267
Acquisition of art objects	(10,289)			(10,289)
Pension-related changes other than net periodic pension cost	(27,195)			(27,195)
Investment return less than amounts designated for current operations and art purchases	(20,861)	(26,571)	(118)	(47,550)
Endowment transfer to third party not-for-profit entity		(576)	(79)	(655)
Other transfers	(3,300)	3,447	(147)	-
Change in net assets	**(39,101)**	**(19,734)**	**7,906**	**(50,929)**
Net assets, beginning of year	115,650	585,423	312,887	1,013,960
Net assets, end of year	**$ 76,549**	**$ 565,689**	**$ 320,793**	**$ 963,031**

See notes to consolidated financial statements.

THE ART INSTITUTE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(In thousands)

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 115,868	$	$	$ 115,868
Student aid	(30,218)			(30,218)
Tuition and student program fees, net	85,650	-	-	85,650
Contributions	25,204	24,165	20,823	70,192
Chicago Park District tax	6,138			6,138
Museum admissions	8,571			8,571
Membership dues	6,618			6,618
Special exhibitions, catalogues, and other revenues	422			422
Other program revenues	8,280			8,280
Investment return designated for current use	13,431	21,509		34,940
Auxiliary activities	23,915			23,915
Other	1,031			1,031
Net assets released from restrictions	37,238	(37,238)		-
Total operating revenue, gains, and other support	216,498	8,436	20,823	245,757
Expenses and losses:				
Programs services:				
Curatorial, libraries, and collections	31,810			31,810
Special exhibitions	4,801			4,801
Museum education	2,514			2,514
Other programs	7,635			7,635
Instructional and academic	72,372			72,372
Auxiliary activities	16,313			16,313
Managerial and general:				
General administration	26,421			26,421
Depreciation	25,855			25,855
Interest and debt issuance cost amortization	12,946			12,946
Member development	1,922			1,922
Fund raising	7,077			7,077
Other			293	293
Total expenses and losses	209,666	-	293	209,959
Change in net assets from operations	**6,832**	**8,436**	**20,530**	**35,798**
Nonoperating revenue, expenses, support, gains, and losses:				
Proceeds from the sale of art objects		75,333		75,333
Contributions for the purchase of art objects		3,471	3	3,474
Net assets released to fund acquisition of art objects	82,885	(82,885)		-
Investment return designated for art purchases	(58)	3,315	79	3,336
Acquisition of art objects	(83,107)			(83,107)
Pension-related changes other than net periodic pension cost	19,206			19,206
Investment return in excess of amounts designated for current operations and art purchases	35,828	68,890	493	105,211
Other transfers	(990)	(466)	1,456	-
Change in net assets	**60,596**	**76,094**	**22,561**	**159,251**
Net assets, beginning of year	55,054	509,329	290,326	854,709
Net assets, end of year	**$ 115,650**	**$ 585,423**	**$ 312,887**	**$ 1,013,960**

See notes to consolidated financial statements.

THE ART INSTITUTE OF CHICAGO

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 and 2011
(In thousands)

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ (50,929)	$ 159,251
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	24,530	23,935
Loss on retirement of property	200	7
Loss on debt defeasance	209	
Change in pension liability	23,836	(14,472)
Contributions restricted for permanently restricted endowment, net	(11,051)	(15,531)
Contributions restricted for capital campaign, net	(4,648)	(8,968)
Other losses		293
Net unrealized and realized losses (gains) on investments	14,543	(137,940)
Acquisitions and sales of art, net	836	7,774
Change in assets and liabilities:		
Accounts and investment income receivable	39	(918)
Prepaid expenses, other assets, and inventories	932	910
Unrestricted and temporarily restricted contributions	(1,172)	(19,820)
Accounts payable and other liabilities	(5,233)	1,680
Refundable advances	46	131
Deferred liabilities	(745)	1,635
Net cash used in operating activities	**(8,607)**	**(2,033)**
Cash flows from investing activities:		
Purchases of property and equipment	(20,768)	(13,808)
Proceeds from sales of art objects	9,453	75,333
Acquisition of art objects	(11,073)	(80,485)
Other assets restricted for debt service	13,429	(17,656)
Proceeds from sales of investments	317,485	494,718
Purchases of investments	(300,321)	(494,215)
Net cash provided by (used in) investing activities	**8,205**	**(36,113)**
Cash flows from financing activities:		
Proceeds from contributions restricted for permanently restricted endowment	13,970	16,622
Proceeds from capital campaign	15,562	21,003
Payments on notes payable	(78,358)	(46,569)
Proceeds from notes payable	48,520	45,654
Net cash (used in) provided by financing activities	**(306)**	**36,710**
Net decrease in cash and cash equivalents	**(708)**	**(1,436)**
Cash and cash equivalents at the beginning of year	3,850	5,286
Cash and cash equivalents at the end of year	**$ 3,142**	**$ 3,850**
Supplemental data: Interest paid	$ 13,978	$ 12,068
Supplemental disclosure of noncash items: Property and art purchase additions included in accounts payable	$ 9,547	$ 7,865

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Art Institute of Chicago ("AIC") is a not-for-profit corporation that exists to provide appreciation and education in visual fine arts and design. AIC fulfills this purpose through:

- Its museum programs ("museum") by collecting, conserving, researching, publishing, exhibiting, and interpreting an internationally significant permanent collection of objects of art and by presenting temporary exhibitions of international importance, including loaned objects from other collections.

- Its academic programs ("School") by offering comprehensive undergraduate and graduate curricula that provide for the preparation of visual artists, teachers of art, designers, and others in areas that include written, spoken, and media formats.

The accompanying consolidated financial statements include the accounts of AIC and Ox-Bow, known collectively as the "Institute". Ox-Bow is a separate 501(c)(3) not-for-profit organization that conducts a school of the arts. The consolidating financial statements are shown in Note 14.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America. A summary of the Institute's significant accounting policies is set forth below:

Management Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, and disclosures of contingencies at the date of the consolidated financial statements, and the reported amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Classification of Net Assets - Resources are classified for accounting and reporting purposes into three categories of net assets—unrestricted, temporarily restricted, or permanently restricted—according to external donor-imposed restrictions and consistent with relevant law.

Unrestricted net assets include all resources that are not subject to donor-imposed restrictions of a more specific nature than those that only obligate the Institute to utilize funds in furtherance of its mission. Revenues received and expenses incurred in conducting the programs and services of the Institute are presented in the consolidated financial statements as unrestricted operating funds that increase or decrease unrestricted net assets. By action of the Board of Trustees of the Institute (the "Board"), certain unrestricted net assets have been designated for long-term investment or other special purposes.

Temporarily restricted net assets carry specific donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because of the passage of time or because the Institute has fulfilled the restrictions. Donor-restricted gifts that are not permanently restricted are reported as temporarily restricted contributions, regardless of when the net assets are expended. Transfers of temporarily restricted net assets associated with current expenditures for which the restrictions have been satisfied are reported as net assets released from restrictions. By action of the Board, certain temporarily restricted assets have been designated for long-term investment in the endowment fund.

Permanently restricted net assets are those that are subject to donor-imposed restrictions that will never lapse, thus are restricted to long-term investments and maintained permanently as endowment funds. The portion of the donor restricted endowment funds classified as permanently restricted net assets are the original value of the assets contributed to the permanent endowment funds, subsequent contributions to such funds valued at the date of contribution and reinvested earnings on permanent endowment when specified by the donor.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Art Objects and Library Collections - The value of the art objects in the permanent collection, as well as the holdings of the libraries, are excluded from the consolidated statements of financial position. Additions to the permanent collection are made either by gifts, bequests, or through purchases using Institute acquisition funds. Institute acquisition funds may be classified as permanently restricted, for which only the income earned on principal balances may be used for acquisitions; temporarily restricted, for which both the principal and earned income may be used for acquisitions; or unrestricted, representing funds designated by the Board to be used for acquisitions.

The withdrawal of works of art from the collection of the Institute is performed in accordance with a formal policy adopted in 1975. The objects are generally offered for sale at a public auction, and the proceeds from such sales are classified as temporarily restricted for the purchase of works of art. All works of art and certain library collections are held for public exhibition, education, or research; are protected, kept unencumbered, cared for, and preserved; and are subject to strict organizational policies governing their use. The value of the Institute's permanent collection is not subject to reasonable estimation.

Cash and Cash Equivalents - Cash equivalents not earmarked as long-term investments are stated at cost, which approximates fair value, and consist of short-term United States Treasury obligations, high-grade commercial paper, certificates of deposit, or money market funds acquired within 90 days of maturity.

Accounts and Investment Income Receivable and Accounts Payable and Other Liabilities - The carrying amount approximates fair value because of the short-term maturity of those instruments.

Contributions Receivable - The receipt of unconditional promises to give with payments due in future periods is reported as temporarily or permanently restricted support unless explicit donor stipulations or circumstances surrounding the receipt of the promise make clear that the donor intended it to be used to support activities of the current period. Unconditional promises to give are reported at fair value based upon discounted estimated future cash flows, net of the allowance for uncollectible pledges. The discount rate used is a risk-free interest rate based on the yield curve for U.S. Treasury securities. Amortization of the discount is recorded as additional contribution revenue.

Inventories - Inventories are stated generally at average cost based upon the moving-average cost method.

Prepaid Expenses and Other Assets - Prepaid expenses include expenditures for operating supplies, lease commissions, lease build out, bond issuance costs, and expenditures made in connection with the development of future exhibitions. Exhibition expenditures typically relate to research, organizational travel, insurance, transport costs of the works to be included in the exhibition, and the development of exhibition catalogues. Other assets primarily include cash and cash equivalents restricted for debt service, as stipulated in the Series 2010B bond indenture agreement, and are maintained in a Restricted Pledge Fund. As of June 30, 2012 and 2011, the Restricted Pledge Fund balance was $4.3 million and $17.7 million, respectively.

Property and Equipment - Legal title to the Institute's Grant Park facility, a significant component of which has been designated a historical monument, and to the land on which it is situated, is vested in the Chicago Park District. The sole and permanent right to the use and occupancy of the land and buildings, including any future improvements, was vested at no cost to the Institute in 1893 as long as the Institute uses the property for the purposes for which it is incorporated. Records are not available to permit the capitalization of additions and improvements made to the Grant Park facility incurred prior to 1984. The Institute owns 17 properties that provide instructional, public programming, administrative, storage, and student housing space. Portions of some of these facilities are leased to others. The land, buildings, building improvements, and related equipment, furniture, and fixtures are stated at cost, net of depreciation.

Depreciable assets are depreciated using the straight-line method over the estimated useful lives of the assets. Buildings constructed prior to 2005 on Grant Park property have a useful life of 50 years; the purchase, completed construction, and major improvements of all other buildings have a useful life of 40 years. Subsequent building improvements have useful lives ranging from 5 to 31.5 years. Equipment, furniture, and fixtures have useful lives ranging from 3 to 10 years.

The Institute adopted the optional method for reporting net assets released for long-lived assets. The Institute's accounting policy implies that the temporarily restricted net assets related to long-lived assets are released on a schedule that corresponds with the depreciation schedule of the related property and equipment.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments – Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

Long-term investing is governed by AIC's Investment Pool Policy. The Investment Committee of the Board of Trustees is responsible for oversight of all investments and compliance with the investment policies, which are approved by the Investment Committee and the Executive Committee. The investment policies attempt to provide a predictable stream of funding to Institute programs while seeking to maintain the purchasing power of the assets. The pooled investments are invested in a widely diversified portfolio in a manner to promote both growth and current income to achieve the policy's objectives. Diversification of portfolio assets is an integral part of AIC's investment philosophy to provide reasonable assurance that no single security or class of security will have a disproportionate impact on the total investment pool. As such, funds will be placed with managers who have distinct investment philosophies.

AIC has various controls and policies in place related to the purchase, sale, and valuation of its investment securities. Purchases and sales of investments are recorded on trade dates and realized and unrealized gains and losses are determined on the basis of average cost of securities. Realized and unrealized appreciation or depreciation in the carrying value of investments is classified as part of either unrestricted, temporarily restricted, or permanently restricted net assets in accordance with applicable donor and legal requirements.

Pension and Other Postretirement Plans - The Institute sponsors an employer defined benefit plan; the overfunded or underfunded status of the plan is recognized as an asset or liability in its consolidated statement of financial position. The Institute measures plan assets and benefit obligations as of the date of the Institute's fiscal year end.

Deferred revenues and other- Membership dues received are recognized ratably as revenue over the membership period. Tuition from students and residential revenues are recognized ratably as revenue over the applicable term. Deferred lease payments are recognized as an expense on a straight-line basis over the lease term.

Asset Retirement Obligations - Asset retirement obligations include those for which the Institute 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 Institute's control. The Institute records all known asset retirement obligations for which the fair value of the liability can be reasonably estimated.

Special Exhibitions - Revenues specific to special exhibitions are included in museum admissions, contributions, and auxiliary activities.

Auxiliary Activities - Auxiliary activities include revenues and certain direct expenditures related to the operation of museum shops, food service, and School residence halls.

Member Development - Member development includes identifying and offering memberships to prospective members, member relations, and member communications. The imputed value of membership benefits provided to upper level and Sustaining Fellow members approximate $339,000 in 2012 and $341,000 in 2011. Proceeds from upper level and Sustaining Fellow members are included in contributions.

Purchases and Sales of Art - All revenues and expenses associated with the purchases and sales of art objects, including restricted giving and the release and use of restricted and unrestricted funds for such purposes, are considered nonoperating revenues and expenses.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In-Kind Support - The Institute records various types of in-kind support, including contributed equipment, services, and other property. Contributions of tangible assets and services are recognized at fair value when received. The amounts reflected in the accompanying consolidated financial statements as in-kind support are offset by like amounts included in expenses or assets.

The Institute receives a significant amount of volunteer time that does not meet the criteria for recognition as a contribution. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying consolidated financial statements.

Income Taxes - The Institute is a not-for-profit corporation exempt from federal income tax under Section 501(a) of the Internal Revenue Code, as an organization described in Section 501(c)(3); the Institute is similarly exempt from state income taxes. Despite the general exemption from income taxation, the Institute is subject to federal and state income tax at corporate rates on its unrelated business income.

Accounting Standards Codification ("ASC") 740, *Income Taxes*, prescribes a comprehensive model for how an institution should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the institution has taken or expects to take on a tax return. For federal purposes, the Institute has reported federal net operating losses (NOLs) of approximately $6.5 million for tax periods through June 30, 2011. The Institute does not have the ability to estimate the NOL through June 30, 2012, as the NOL calculation is reliant upon third-party information, which is not yet available. These NOLs will expire, if not utilized, between the years 2025 and 2031. The Institute has not recorded a tax benefit for these NOLs for the years ended June 30, 2012 and 2011, respectively; because it is not more likely than not that the Institute will be able to realize the benefit.

Other Transfers - The Institute records reclassifications between net asset categories as other transfers. Other transfers primarily consist of donor clarification on previously undetermined restrictions and net proceeds from events that have a restricted purpose. In 2012, the Institute reclassified $2.9 million of unrestricted cumulative losses related to underwater endowment funds that were reported previously as temporarily restricted.

New Accounting Pronouncements (issued not yet adopted) - In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles* ("*U.S. GAAP") and International Financial Reporting Standards ("IFRS"),* which amends Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures***.** The amendments in this update require the categorization by level for items that are required to be disclosed at fair value and information about transfers between Level 1 and Level 2. In addition, the ASU provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. The ASU requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The amendments are effective for reporting periods beginning after December 15, 2011. The adoption will not have a material effect on the consolidated statement of financial position and consolidated statement of activities. The Institute is currently evaluating the impact of adopting these amendments on the disclosures in the consolidated financial statements.

2. INVESTMENTS

Investments as of June 30, 2012 and 2011, consist of the following (in thousands):

	2012		
	Pooled	Non-Pooled Investments	Total
Cash and cash equivalents	$ 7,369	$ 8,291	$ 15,660
Fixed income securities	16,642	3,721	20,363
Equity securities	351,725	3,289	355,014
Hedge funds	180,501		180,501
Venture capital and private equity	95,607		95,607
Real assets	95,199		95,199
Total assets held for investment	747,043	15,301	762,344
Assets held in trust by others		40,922	40,922
Total investments	$ 747,043	$ 56,223	$ 803,266

	2011		
	Pooled	Non-Pooled Investments	Total
Cash and cash equivalents	$ 9,198	$ 4,591	$ 13,789
Fixed income securities	43,962	3,407	47,369
Equity securities	384,129	3,458	387,587
Hedge funds	138,246		138,246
Venture capital and private equity	85,943		85,943
Real assets	121,117		121,117
Total assets held for investment	782,595	11,456	794,051
Assets held in trust by others		43,746	43,746
Total investments	$ 782,595	$ 55,202	$ 837,797

Cash and cash equivalents earmarked as long-term investments consist of short-term United States Treasury obligations, high-grade commercial paper, certificates of deposit, or money market funds acquired within 90 days of maturity. Equity and fixed income securities consist of marketable securities invested directly or indirectly via mutual funds, separately managed accounts, institutional commingled vehicles, or hedge funds with marketable underlying investments.

Hedge fund investments consist of limited partnerships invested in a variety of strategies and may utilize leverage. Underlying investments in these funds may include equities, fixed income securities, commodities, currencies, or derivatives. Venture capital and private equity investments consist of limited partnerships invested in a variety of strategies. Underlying investments in these funds may include private equity and private debt. Real assets consist of real estate, oil and gas, and commodity investments invested via mutual funds, institutional commingled funds, hedge funds, or private limited partnerships. Also included in investments are assets held in trust by others, the income from which is paid in whole or in part to the Institute.

2. INVESTMENTS (continued)

Investments as of June 30, 2012 and 2011, as a percentage consist of the following:

	2012		
	Pooled	Non-Pooled Investments	Total
Cash and cash equivalents	1.0%	14.8%	1.9%
Fixed income securities	2.2	6.6	2.5
Equity securities	47.1	5.8	44.2
Hedge funds	24.2		22.5
Venture capital and private equity	12.8		11.9
Real assets	12.7		11.9
Total assets held for investment	100.0	27.2	94.9
Assets held in trust by others		72.8	5.1
Total investments	100.0%	100.0%	100.0%

	2011		
	Pooled	Non-Pooled Investments	Total
Cash and cash equivalents	1.2%	8.3%	1.6%
Fixed income securities	5.6	6.2	5.7
Equity securities	49.0	6.3	46.2
Hedge funds	17.7		16.5
Venture capital and private equity	11.0		10.3
Real assets	15.5		14.5
Total assets held for investment	100.0	20.8	94.8
Assets held in trust by others		79.2	5.2
Total investments	100.0%	100.0%	100.0%

2. INVESTMENTS (continued)

The changes in fair value of assets held for investment and assets held in trust by others for the years ended June 30, 2012 and 2011, are as follows (in thousands):

	For the year ended 2012			
	Assets Held for Investment		Assets Held	
Change in fair value:	Pooled	Non-Pooled	in Trust	Total
Realized	$ 4,030	$ 54	$	$ 4,084
Unrealized	(18,701)	75		(18,626)
Dividend and interest income	8,117	165	1,927	10,209
Cash gifts and other additions	11,230	15,562	(2,824)	23,968
Transfers in (out)	1,420	(11,999)		(10,579)
Investment management fees	(2,640)	(12)		(2,652)
Allocation of spendable funds	(39,008)		(1,927)	(40,935)
Net change in fair value	(35,552)	3,845	(2,824)	(34,531)
Fair value, beginning of year	782,595	11,456	43,746	837,797
Fair value, end of year	$ 747,043	$ 15,301	$ 40,922	$ 803,266

	For the year ended 2011			
	Assets Held for Investment		Assets Held	
Change in fair value:	Pooled	Non-Pooled	in Trust	Total
Realized	$ 87,579	$ 319	$	$ 87,898
Unrealized	49,616	426		50,042
Dividend and interest income	5,442	179	1,901	7,522
Cash gifts and other additions	20,076	21,003	5,365	46,444
Transfers in (out)	52,457	(60,937)		(8,480)
Investment management fees	(1,828)	(11)		(1,839)
Allocation of spendable funds	(36,885)		(1,901)	(38,786)
Net change in fair value	176,457	(39,021)	5,365	142,801
Fair value, beginning of year	606,138	50,477	38,381	694,996
Fair value, end of year	$ 782,595	$ 11,456	$ 43,746	$ 837,797

Realized and unrealized gains and (losses) included in the consolidated statement of activities for the years ended June 30, 2012 and 2011, are reported in lines investment return designated for current use, investment return designated for art purchases, investment return in excess of amounts designated for current operations and art purchases, and contributions.

The annualized rate of return is net of investment manager fees and is computed using monthly net returns of individual investment managers. Individual manager returns are calculated using a weighted-average capital base, which is determined by the beginning fair value, plus the weighted-average of net monthly additions. The fair values (in thousands) and the rates of investment return on the pooled investments for the years ended June 30, 2012 and 2011, are summarized as follows:

	2012		2011	
	Fair Value	Rate of Return	Fair Value	Rate of Return
Pooled Endowment Funds Investments	$ 747,043	(0.9)%	$ 782,595	23.7 %

2. INVESTMENTS (continued)

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820") defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. Inputs are broadly defined under ASC 820 as assumptions market participants would use in pricing an asset or liability. The measurement component of ASU No. 2009-12, *Fair Value Measurements and Disclosures: Investments in Certain Entities that Calculate Net Asset Value per Share or its Equivalent*, provides guidance on measuring the fair value of certain alternative investments in which the value is measured using the net asset value per share or its equivalent. The guidance clarifies that if an organization is able to redeem the investment at net asset value or its equivalent as of the measurement date or within a near term period, such an investment may be classified as a Level 2 asset. If an organization does not have the ability to redeem the investment with the fund manager as of the measurement date or a near-term period at net asset value or its equivalent, the investment must be classified as a Level 3 asset. The Institute defines near-term to be within 90 days of the measurement date. The Institute's policy is to recognize transfers in and out of levels as of the beginning of the fiscal year taking into consideration subsequent events, which may require a different transfer recognition date.

The following presents information about the Institute's assets that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques the Institute utilized to determine such fair value. The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 - Unadjusted quoted prices at the measurement date in active markets for identical assets or liabilities that the reporting entity has the ability to access. Investments which are generally included in Level 1 are money market funds, mutual funds, and listed equities.

Level 2 - Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. Investments which are generally included in this category are corporate bonds, less liquid and restricted equity securities, institutional commingled funds, and certain hedge funds that are redeemable in the near term at net asset value or its equivalent.

Level 3 - Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value may require significant management judgment or estimation. Investments which are generally included in this category are certain institutional commingled funds and hedge funds that are not redeemable in the near term at net asset value or its equivalent, and private limited partnerships.

The Institute's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The valuation techniques used by the Institute to measure different financial instruments at fair value are described below:

Investments in securities traded on a national securities exchange are stated at the last reported sales price on the date of valuation. Hedge funds and institutional commingled funds are stated at fair value of the underlying securities or at net asset value, as determined by the administrator, based on readily determinable market values. For government and corporate bonds, fair values are generally obtained from third-party pricing services for comparable assets or liabilities.

2. INVESTMENTS (continued)

Investments in limited partnerships are valued at fair value based on the applicable percentage ownership of the investment partnerships' net assets as of the measurement date. In determining fair value, management utilizes valuations provided by the investment partnerships. The estimated fair values of certain investments of the investment partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective investment partnerships and may not reflect amounts that could be realized upon immediate sale nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a readily available market existed for these investments.

Management obtains and considers the fund's audited financial statements when evaluating the overall reasonableness of the recorded value. Audited information is only available annually, based on the partnerships' or funds' year end. Investments in private limited partnerships are valued based on the June 30 partner capital account balances as reported by the partnership to the Institute or as estimated by the Institute.

The Institute's investments are classified as follows, based on fair values, as of June 30, 2012 (in thousands):

	2012			
Pooled Investments	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 7,369	$	$	$ 7,369
Fixed income securities	16,642			16,642
Equity securities	102,947	231,980	16,798	351,725
Hedge funds		72,867	107,634	180,501
Venture capital and private equity			95,607	95,607
Real assets	9,569	34,186	51,444	95,199
Total Pooled Investments	136,527	339,033	271,483	747,043
Non-Pooled Investments				
Cash and cash equivalents	8,291			8,291
Fixed income securities		3,721		3,721
Equity securities	3,289			3,289
Assets held in trust by others	31,623	8,833	466	40,922
Total Non-Pooled Investments	43,203	12,554	466	56,223
Total Investments	$ 179,730	$ 351,587	$ 271,949	$ 803,266

2. INVESTMENTS (continued)

The Institute's investments are classified as follows, based on fair values, as of June 30, 2011 (in thousands):

	2011			
Pooled Investments	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 9,198	$	$	$ 9,198
Fixed income securities		43,962		43,962
Equity securities	165,452	192,177	26,500	384,129
Hedge funds		70,437	67,809	138,246
Venture capital and private equity			85,943	85,943
Real assets	10,524	53,465	57,128	121,117
Total Pooled Investments	185,174	360,041	237,380	782,595
Non-Pooled Investments				
Cash and cash equivalents	4,591			4,591
Fixed income securities		3,407		3,407
Equity securities	3,458			3,458
Assets held in trust by others	40,348	2,764	634	43,746
Total Non-Pooled Investments	48,397	6,171	634	55,202
Total Investments	$ 233,571	$ 366,212	$ 238,014	$ 837,797

The following table sets forth a reconciliation of beginning and ending balances for the Level 3 investments for the years ended June 30, 2012 and 2011 (in thousands):

	2012	2011
Beginning balance	$ 238,014	$ 178,545
Total gains		
Realized	8,897	8,469
Unrealized	2,362	25,520
Purchases	58,157	63,133
Sales	(24,480)	(23,592)
Transfers in to Level 3	7	3,528
Transfers out of Level 3	(11,008)	(17,589)
Ending balance	$ 271,949	$ 238,014
Amount of gains for the year attributable to unrealized gains relating to assets still held at year end	$ 2,915	$ 25,520

For the years ended June 30, 2012 and 2011, $11.0 million and $17.5 million was transferred from Level 3 to Level 2 due to the expiration of lockup restrictions on certain equity securities and hedge fund investments, respectively.
In April 2011, the Institute received notification that a hedge fund was in liquidation resulting in $3.5 million of transfers into Level 3 from Level 2.

2. INVESTMENTS (continued)

The unfunded commitments, redemption frequency, and redemption notice period of investments held at net asset value or its equivalent are as follows as of June 30, 2012 and 2011 (in thousands):

	2012				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Lockup or Gate
Equity securities	$ 248,778	N/A	Daily-Annually	1-90 Days	Some assets subject to 1 year lock-up
Hedge funds	180,501	N/A	Monthly-Annually	30-120 Days	Some assets subject to 1.5-3 year lock-up
Venture capital and private equity	95,607	38,051	N/A	N/A	N/A
Real assets	85,630	5,632	Daily-Annually	1-90 Days	None
Total	$ 610,516	$ 43,683			

	2011				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Lockup or Gate
Fixed income securities	$ 43,962	N/A	Daily	1 Day	None
Equity securities	218,677	N/A	Daily-Annually	1-90 Days	Some assets subject to 1 year lock-up
Hedge funds	138,246	N/A	Monthly-Annually	30-120 Days	Some assets subject to 2-3 year lock-up
Venture capital and private equity	85,943	46,748	N/A	N/A	N/A
Real assets	110,593	9,033	Monthly-Annually	1-90 Days	None
Total	$ 597,421	$ 55,781			

3. ENDOWMENT FUNDS

The Institute establishes endowment funds for the purpose of investing assets in a manner that preserves the real value of the endowment principal and, in addition, provides spendable funds that can be used to fulfill the purposes for which the endowments were established. The Institute's endowment funds consist of donor restricted endowment funds and funds designated by the Board as funds functioning as endowment. The net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions, as well as based upon relevant law as further described below.

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation and was adopted by the State of Illinois. The Board has interpreted the State of Illinois' UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until any applicable purpose has been fulfilled and those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate endowment funds:

1) The duration and preservation of the fund
2) The mission of the Institute and the purposes of the donor restricted endowment fund
3) General economic conditions
4) The possible effects of inflation and deflation
5) The expected total return from income and appreciation of investments
6) Other resources of the Institute
7) The investment policies of the Institute

Where the Board designates unrestricted funds to function as endowments, they are classified as unrestricted net assets. Where the Board designates donor restricted non-endowment funds to function as endowments they are classified as temporarily restricted net assets.

The Institute's endowment composition as of June 30, 2012 and 2011, is as follows (in thousands):

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (6,049)	$ 189,479	$ 320,793	$ 504,223
Board-designated endowment funds	268,559	33,732		302,291
Total funds	$ 262,510	$ 223,211	$ 320,793	$ 806,514

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$	$ 211,361	$ 312,887	$ 524,248
Board-designated endowment funds	284,496	35,688		320,184
Total funds	$ 284,496	$ 247,049	$ 312,887	$ 844,432

3. ENDOWMENT FUNDS (continued)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) as of June 30, 2012 and 2011, are as follows (in thousands):

	2012	2011
Permanently restricted net assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	$ 320,793	$ 312,887
Temporarily restricted net assets		
Term endowment funds	$ 130,006	$ 140,957
The portion of perpetual endowments subject to a time restriction under UPMIFA	93,205	106,092
Total endowment funds classified as temporarily restricted net assets	$ 223,211	$ 247,049

Changes in endowment net assets for the year ended June 30, 2012, are as follows (in thousands):

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 284,496	$ 247,049	$ 312,887	$ 844,432
Investment income	3,783	6,531	33	10,347
Net depreciation on pooled and non-pooled investments	(7,162)	(9,992)	(67)	- (17,221)
Net depreciation on assets held in trust			(2,841)	(2,841)
Contributions		500	11,076	11,576
Appropriation of endowment assets for expenditure	(17,469)	(23,313)	(153)	(40,935)
Transfers to create board-designated endowment funds	1,467			1,467
Transfers to third-party not-for-profit entity		(576)	(79)	(655)
Other changes, net	(2,605)	3,012	(63)	344
Endowment net assets, end of year	$ 262,510	$ 223,211	$ 320,793	$ 806,514

3. ENDOWMENT FUNDS (continued)

Changes in endowment net assets for the year ended June 30, 2011, are as follows (in thousands):

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 197,877	$ 177,476	$ 290,326	$ 665,679
Investment income	2,953	2,714	1,901	7,568
Net appreciation on pooled investments	52,451	82,873	573	135,897
Net appreciation on non-pooled investments	104	630		734
Net appreciation on assets held in trust			5,365	5,365
Contributions		500	15,460	15,960
Appropriation of endowment assets for expenditure	(19,670)	(17,215)	(1,901)	(38,786)
Transfers to create board-designated endowment funds	55,368			55,368
Transfers to remove board-designated endowment funds	(3,434)			(3,434)
Other changes, net	(1,153)	71	1,163	81
Endowment net assets, end of year	$ 284,496	$ 247,049	$ 312,887	$ 844,432

Endowment Funds with Deficits
From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts ("deficit"). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. As of June 30, 2011, $2.9 million in donor endowment deficits were reported in temporarily restricted net assets. In 2012, the Institute reclassified the cumulative losses related to underwater endowment funds from temporarily restricted net assets to unrestricted net assets. As of June 30, 2012, $6.0 million in donor endowment deficits were reported in unrestricted net assets. These deficits resulted from unfavorable market conditions.

Relationship of Spending Policy to Investment Objectives
The Institute's Investment and Executive Committees (the "Committees") determine the method to be used to appropriate endowment funds for expenditure. The appropriation amounts are determined as of the end of the year, prior to when it becomes available for expenditure, and is equal to the spendable amount or additional amounts as approved by the Executive Committee during the year. Net assets released as a result of appropriations of endowment funds are shown as operating or non-operating dependent upon the nature of the appropriation.

Prior to 2012, the Institute's fiscal year spending policy was based on the average of assets over 12 quarter periods ending the previous December 31. The spendable amount for the year ended June 30, 2011, was equal to 5.0% of the average market value of assets over 12 quarter periods ending December 31, 2009. Additions to principal were factored in on a weighted-average basis through June 30, 2011.

3. ENDOWMENT FUNDS (continued)

In 2012, the Institute changed its spendable endowment payout formula to a controlled growth distribution formula to better support management's dual goals of maintaining purchasing power and producing a predictable stream of income to the operating budget. After considering among other factors the standard of prudence prescribed by UPMIFA, the Institute's Board set the fiscal year 2012 spendable amount equal to the fiscal year 2011 amount. For fiscal years subsequent to 2012, the spendable payout is expected to be the higher of a) the prior year's endowment payout increased by 2.5% or b) the prior year's endowment payout increased by the growth in the consumer's price index. Additions to principal during any fiscal period will increase the spendable payout by the same unit payout basis used for existing endowment funds adjusted for when the additions are received during the fiscal year. Endowment spendable amounts will be reassessed by the Executive Committee of the Board of Trustees every three years or more frequently as conditions warrant. Prior-year accumulated capital gains are utilized to the extent necessary to meet the annual spendable objective. Depending upon market conditions and the needs and available resources of the Institute, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment or in excess of the spending policy as deemed prudent by the Committees. The change in policy noted above had no material impact on the consolidated financial statements.

4. CONTRIBUTIONS RECEIVABLE

Unconditional promises to contribute to the Institute are recorded as contributions receivable at fair value based upon discounted estimated future cash flows, net of the allowance for uncollectible accounts. The discount rates for fiscal year 2012 ranged from 0.2% to 1.6% and for fiscal year 2011 ranged from 0.9% to 3.7%. Contributions receivable are expected to be realized as follows (in thousands):

Collectible during the following periods:	2012	2011
Year one	$ 20,398	$ 24,750
Year two	8,677	11,840
Year three	5,933	7,508
Year four	5,679	5,218
Year five and thereafter	9,985	14,378
Gross contributions receivable	50,672	63,694
Fair value adjustment	(797)	(3,504)
Allowance for uncollectible contributions	(1,306)	(1,783)
Net contributions receivable	$ 48,569	$ 58,407

The Institute's unconditional promises to contribute recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. All valuations are classified as Level 2 within the fair value hierarchy based on market valuation techniques. The Institute took into account historical and projected cash flow rates. The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment as of June 30, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Land	$ 11,351	$ 11,351
Buildings and improvements	606,694	594,008
Equipment, furniture, and fixtures	19,629	18,123
Total property and equipment	637,674	623,482
Construction in progress	6,995	7,427
Accumulated depreciation	(166,799)	(148,993)
Property and equipment, net	$ 477,870	$ 481,916

6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities as of June 30, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Accounts payable	$ 17,233	$ 21,765
Art purchase liability	3,375	2,414
Asset retirement obligations	5,721	5,844
Accrued salaries and benefits	4,731	4,067
Accrued interest payable	4,589	5,043
Other liabilities	2,270	2,691
Total accounts payable and other liabilities	$ 37,919	$ 41,824

The asset retirement obligations primarily consist of asbestos removal costs. The assets that are held for purposes of settling asset retirement obligations are $1.7 million less accumulated depreciation of $1.7 million as of June 30, 2012 and 2011. The change in the asset retirement obligation for the years ended June 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
Asset retirement obligations, beginning of year	$ 5,844	$ 5,830
Accretion expense	30	53
Settlements paid	(163)	(54)
Change in estimate	10	15
Asset retirement obligations, end of year	$ 5,721	$ 5,844

7. COMMITMENTS AND CONTINGENCIES

The Institute is party to various legal proceedings and claims incidental to its business. Institute management currently believes that the ultimate outcome of these proceedings and/or claims, either individually or in the aggregate, will not have a material adverse effect on the Institute's consolidated statement of financial position, consolidated statement of activities, or consolidated statement of cash flows.

The Institute has operating lease agreements for academic, office and storage space, and office equipment expiring in various years through 2020. Certain operating leases provide for renewal options for periods from 1 to 10 years. Total lease expenses are $3.3 million for the years ended June 30, 2012 and 2011, respectively.

Minimum future lease payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2012, are as follows (in thousands):

Year ending June 30,	
2013	$ 4,340
2014	3,688
2015	3,554
2016	3,547
2017	3,467
2018 and thereafter	10,415
Total minimum lease payments	$ 29,011

8. NOTES PAYABLE

Notes payable as of June 30, 2012, consist of the following (in thousands):

	Principal Amount	% of Total Bonds	% of Total O/S Debt	Final Maturity or Expiration	Principal Payable	Interest Payment Dates	Interest Reset Period	Interest Rates at June 30
Bonds:								
Medium/Long-Term Bonds Tax Exempt:								
Adjustable Interest Rate Demand Revenue Bonds: Series 2000A	$ 31,985			3/1/2034	At maturity, subject to mandatory tender in 2014-2018	March 1, September 1	2-6 years	4.25% to 5.25%
Adjustable Interest Rate Medium-Term Revenue Bonds: Series 1998A	29,880			3/1/2030	At maturity, subject to mandatory tender in 2013-2017	March 1, September 1	1-5 years	4.13% to 5.00%
Fixed Interest Rate Revenue Bonds: Series 2009A	20,000			3/1/2019	At maturity	March 1, September 1	N/A	5.25%
Series 2009A	40,000			3/1/2038	At maturity	March 1, September 1	N/A	6.00%
Series 2010A	58,190			3/1/2015	At maturity	March 1, September 1	N/A	5.00%
Series 2010A	45,170			3/1/2040	At maturity	March 1, September 1	N/A	5.25%
Series 2010B	27,375			7/1/2015	At maturity	January 1, July 1	N/A	4.00%
Fixed Interest Rate Revenue Refunding Bonds: Series 2003	11,700			3/1/2023	Varying dates and amounts	March 1, September 1	N/A	4.00% to 5.38%
Total Bonds	264,300	100.0%	97.5%					
Bank Debt:								
Bank of America $10 million working capital line of credit				4/30/2013	At expiration	Varying dates	Varying dates	LIBOR-based
JP Morgan Chase $25 million working capital line of credit	1,100		0.4%	5/30/2015	At expiration	Varying dates	Varying dates	LIBOR-based
Northern Trust $20 million working capital line of credit				1/24/2014	At expiration	Varying dates	Varying dates	LIBOR-based
Bank of Holland $575,000 commercial real estate loan	575		0.2%	1/10/2015	At expiration	Monthly	N/A	4.25%
Bank of Holland $100,000 line of credit	70		0.0%	N/A	At expiration	Monthly	N/A	4.50%
Total Outstanding Debt	266,045		98.1%					
Unamortized premium	5,905							
Unamortized discount	(831)							
Total	$ 271,119							

8. NOTES PAYABLE (continued)

Notes payable as of June 30, 2011, consist of the following (in thousands):

	Principal Amount	% of Total Bonds	% of Total O/S Debt	Final Maturity or Expiration	Principal Payable	Interest Payment Dates	Interest Reset Period	Interest Rates at June 30
Bonds:								
Medium/Long-Term Bonds Tax Exempt:								
Adjustable Interest Rate Demand Revenue Bonds: Series 2000A	$ 32,000			3/1/2034	At maturity, subject to mandatory tender in 2014-2018	March 1, September 1	3-7years	4.25% to 5.25%
Adjustable Interest Rate Medium-Term Revenue Bonds: Series 1998A	29,880			3/1/2030	At maturity, subject to mandatory tender in 2013-2017	March 1, September 1	2-6 years	4.13% to 5.00%
Fixed Interest Rate Revenue Bonds: Series 2009A	20,000			3/1/2019	At maturity	March 1, September 1	N/A	5.25%
Series 2009A	40,000			3/1/2038	At maturity	March 1, September 1	N/A	6.00%
Series 2010A	58,190			3/1/2015	At maturity	March 1, September 1	N/A	5.00%
Series 2010A	47,575			3/1/2040	At maturity	March 1, September 1	N/A	5.25%
Series 2010B	26,580			7/1/2013	At maturity	January 1, July 1	N/A	3.00%
Series 2010B	27,375			7/1/2015	At maturity	January 1, July 1	N/A	4.00%
Fixed Interest Rate Revenue Refunding Bonds: Series 2003	12,665			3/1/2023	Varying dates and amounts	March 1, September 1	N/A	4.00% to 5.38%
Total Bonds	294,265	100.0%	97.2%					
Bank Debt:								
JP Morgan Chase $20 million working capital line of credit				5/30/2012	At expiration	Varying dates	Varying dates	LIBOR+90bps
Northern Trust $20 million working capital line of credit				1/25/2012	At expiration	Varying dates	Varying dates	LIBOR+60bps
Bank of Holland $750,000 commercial real estate loan	650		0.2%	1/10/2012	At expiration	Monthly	N/A	Greater of 5.5% or Prime
Other Debt:	700		0.2%	N/A	N/A	N/A	N/A	N/A
Total Outstanding Debt	295,615		97.6%					
Unamortized premium	8,106							
Unamortized discount	(834)							
Total	$ 302,887							

8. NOTES PAYABLE (continued)

The fair value of notes payable as of June 30, 2012 and 2011, is $289.8 million and $311.2 million, respectively, based upon quoted market prices provided by a third-party pricing service. All bonds are issued through the Illinois Finance Authority. The aggregate scheduled maturities of bonds payable are summarized as follows:

2013	$	5,820
2014		12,915
2015		73,125
2016		41,130
2017		13,250
2018 and thereafter		118,060
Total	$	264,300

The Institute's debt and loan agreements require among other things the maintenance of certain financial ratios. The Institute was in compliance with all financial covenants as of June 30, 2012 and 2011. Management believes that subject to certain conditions, at a minimum, the following temporarily restricted net assets can be used to meet the Institute's debt obligation as of June 30, 2012 and 2011 (in thousands):

	2012	2011
Restricted contributions received for acquisition or improvement of long-lived assets	$ 248,443	$ 248,244
Contributions receivable for acquisition or improvement of long-lived assets funded wholly or partially by debt	19,497	30,461
Portion of perpetual endowments subject to a timing restriction under UPMIFA Consistent with state law, these funds are available upon appropriation by the Board	93,205	106,092
Other temporarily restricted net assets available for debt obligations	18,450	32,455
Total temporarily restricted net assets available for debt obligations	$ 379,595	$ 417,252

Notwithstanding the aforementioned, other net assets not listed above may be used to satisfy the Institute's debt obligations consistent with their restrictions.

In May 2012, AIC extended its JPMorgan Chase working capital line of credit to May 30, 2015 and increased the line to $25.0 million. In January 2012, AIC replaced the Northern Trust working capital line of credit with a new $20.0 million working capital line of credit expiring January 24, 2014. AIC secured a $10.0 million working line of credit through Bank of America expiring on April 30, 2013. As of June 30, 2012, $1.1 million was borrowed against the JPMorgan Chase credit line at a rate of 3.25%. As of June 30, 2011 neither line was drawn.

In June 2012, the Institute purchased, redeemed, and/or defeased $2.6 million of bonds to prevent potential private use related to a management contract executed during the fiscal year. The Institute recorded a loss on debt defeasance of $209,000 for the year ended June 30, 2012.

9. RESTRICTIONS ON NET ASSETS

The nature of restrictions on net assets released from donor restrictions for the years ended June 30, 2012 and 2011, are summarized as follows (in thousands):

	2012	2011
Purchase of art objects	$ 10,200	$ 82,885
Purchase of books	246	385
Student aid	3,316	3,522
Museum exhibitions	3,291	3,023
Museum publications	315	398
Gallery maintenance, professorships, and curatorships	5,502	7,033
Restricted contributions received for acquisition or improvement of long-lived assets	10,951	10,396
Education, instruction, and other departmental purposes	14,238	12,481
Total	$ 48,059	$ 120,123

Net assets categorized by donor restrictions as of June 30, 2012, are summarized as follows (in thousands):

	Temporarily Restricted	Permanently Restricted
Purchase of art objects	$ 42,563	$ 34,200
Purchase of books	2,212	2,144
Student aid	29,112	26,158
Museum exhibitions	6,896	24,809
Museum publications	4,370	3,510
Gallery maintenance, professorships, and curatorships	32,912	81,644
Restricted contributions received for acquisition or improvement of long-lived assets	256,464	
Education, instruction, and other departmental purposes	113,452	77,055
Contributions receivable	36,039	5,397
Assets held in trust by others	509	40,413
General purposes	41,160	25,463
Total	$ 565,689	$ 320,793

Net assets categorized by donor restrictions as of June 30, 2011, are summarized as follows (in thousands):

	Temporarily Restricted	Permanently Restricted
Purchase of art objects	$ 42,618	$ 33,865
Purchase of books	2,528	1,755
Student aid	32,358	25,278
Museum exhibitions	6,596	23,634
Museum publications	4,800	3,510
Gallery maintenance, professorships, and curatorships	38,621	71,800
Restricted contributions received for acquisition or improvement of long-lived assets	249,927	
Education, instruction, and other departmental purposes	116,252	72,848
Contributions receivable	45,828	8,316
Assets held in trust by others	491	43,254
General purposes	45,404	28,627
Total	$ 585,423	$ 312,887

10. PENSION AND OTHER POSTRETIREMENT BENEFITS

AIC has a qualified, noncontributory defined benefit pension plan (the "Plan") covering staff employees who meet the Plan's eligibility. Staff employees hired prior to January 1, 2007 are eligible for the Plan. Staff employees hired after December 31, 2006 and eligible faculty of the School participate in a defined contribution plan in lieu of participation in the Institute's Plan. A supplemental retirement plan is provided for certain employees whose benefits are restricted under the qualified plans. AIC also provides medical and dental benefits on a contributory basis and life insurance benefits to certain Plan retirees until the retirees attain the age of 65. Ox-Bow has a defined contribution plan for eligible employees and the organization may make a discretionary contribution on behalf of its eligible employees.

In September 2012, AIC has decided to offer certain terminated vested participants of the Plan the option to elect to receive lump sum payments subject to an election window. Approximately 750 participants of the Plan which represents approximately $29.0 million of the projected benefit obligation are eligible to receive a lump sum payment. AIC cannot determine how many terminated vested participants will elect to receive lump sum payments until the close of the temporary election window. Therefore AIC cannot reasonably estimate the effect on its consolidated financial statements until such elections are completed and will record the effect in fiscal year 2013.

The following table sets forth the Plan's pension benefit obligation, plan assets and funded status reconciled with the amounts set forth in the consolidated statements of financial position as of June 30, 2012 and 2011 (in thousands):

	2012	2011
Change in benefit obligation		
Benefit obligation—beginning of year	$ 115,831	$ 118,316
Service cost	2,360	2,656
Interest cost	6,376	6,175
Actuarial loss (gain)	25,416	(7,216)
Benefits paid	(4,356)	(4,100)
Plan amendments	365	
Projected benefit obligation—end of year	$ 145,992	$ 115,831
Change in plan assets		
Fair value of plan assets—beginning of year	$ 75,122	$ 63,135
Actual return on plan assets	1,681	12,307
Employer contribution	9,000	3,780
Benefits paid	(4,356)	(4,100)
Fair value of plan assets—end of year	$ 81,447	$ 75,122
Funded status at the end of the year	$ (64,545)	$ (40,709)

The pension plan items not yet recognized as a component of periodic pension expense, but included in net assets as of June 30, 2012 and 2011, are as follows (in thousands):

	2012	2011
Net actuarial loss	$ 65,251	$ 38,596
Prior-service credit	(20)	(578)
Net amount recognized	$ 65,231	$ 38,018

As of June 30, 2012 and 2011, information for pension plans with an accumulated benefit obligation in excess of plan assets consist of the following (in thousands):

	2012	2011
Projected benefit obligation	$ 145,992	$ 115,831
Accumulated benefit obligation	134,063	106,945
Fair value of plan assets	81,447	75,122

10. PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

As of June 30, 2012 and 2011, components of net periodic benefit cost for the pension plan consist of the following (in thousands):

	2012	2011
Service cost	$ 2,360	$ 2,656
Interest cost	6,376	6,175
Expected return on plan assets	(5,867)	(4,728)
Amortization of prior service credit	(193)	(193)
Amortization of net actuarial loss	2,947	4,598
Net periodic benefit cost	$ 5,623	$ 8,508

The estimated net actuarial loss and prior service credit for the defined benefit pension plan that will be amortized and recognized in net periodic benefit cost for fiscal year 2013 are $5.6 million and $(152,000), respectively.

Assumptions—Weighted-average assumptions used to determine the pension benefit obligation as of June 30, 2012 and 2011, are as follows:

	2012	2011
Discount rate	4.10 %	5.50 %
Expected return on plan assets	7.50	7.50
Salary growth rate	4.20	4.20

Weighted-average assumptions used to determine pension net periodic cost for the years ended June 30, 2012 and 2011, are as follows:

	2012	2011
Discount rate	5.50 %	5.20 %
Expected return on plan assets	7.50	7.50
Salary growth rate	4.20	4.20

Contributions— AIC employer contributions to the defined contribution plan totaled $2.8 million and $2.4 million for the years ended June 30, 2012 and 2011, respectively. AIC employer contributions to the supplemental retirement plan totaled $218,000 and $235,000 for the years ended June 30, 2012 and 2011, respectively. Ox-Bow did not make a discretionary employer contribution for the years ended June 30, 2012 and 2011. AIC expects to contribute $30.0 million to its defined benefit pension plan in fiscal year 2013.

Estimated Future Benefit Payments—The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

Year Ending June 30,	
2013	$ 4,901
2014	5,266
2015	5,625
2016	6,054
2017	6,467
2018-2022	37,789

10. PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

Plan Assets— Investment objectives and policies are established by AIC's Investment Committee and are achieved in partnership with external investment managers. The portfolio is designed to generate returns sufficient to meet obligations to beneficiaries at acceptable levels of risk. AIC determines the long-term rate of return on Plan assets by examining the Plan's asset allocation, historical capital market returns, and inflation assumptions. Historical returns and benchmarking data are also reviewed to ensure a reasonable and appropriate return assumption.

The pension plan asset allocations as of June 30, 2012 and 2011, by asset category are as follows:

Asset Category:	2012	2011	Target Allocation
Cash and cash equivalents	2 %	1 %	2 %
Equity securities	68	64	60
Fixed income securities	30	35	38
Total	100 %	100 %	100 %

The following presents information about AIC's Plan assets measured at fair value as of June 30, 2012 and 2011, and the inputs and valuation techniques used to determine those fair values. The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 - Unadjusted quoted prices at the measurement date in active markets for identical assets or liabilities that the reporting entity has the ability to access. Investments included in Level 1 are money market funds, mutual funds, and publicly traded equity and fixed income securities.

Level 2 - Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. Investments included in this category are institutional commingled funds. The underlying investments for these funds are marketable securities and/or publicly traded U.S. Treasury, corporate, and government bonds, however, the Plan does not own the underlying investments directly.

Level 3 - Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value may require significant management judgment or estimation. Investments included in this category are institutional commingled funds in lockup.

The Plan's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. Investments in mutual funds traded on a national securities exchange are stated at the last reported sales price on the date of valuation. Institutional commingled funds are stated at fair value of the underlying securities or at net asset value, as determined by the administrator, based on readily determinable market values.

	2012			
Plan assets, at fair value	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,993	$	$	$ 1,993
Equity securities	31,600	21,395	2,059	55,054
Fixed income securities	14,051	10,349		24,400
Total plan assets, at fair value	$ 47,644	$ 31,744	$ 2,059	$ 81,447

	2011			
Plan assets, at fair value	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 965	$	$	$ 965
Equity securities	26,603	19,464	1,900	47,967
Fixed income securities	18,311	7,879		26,190
Total plan assets, at fair value	$ 45,879	$ 27,343	$ 1,900	$ 75,122

Level 3 asset activity for the year ended June 30, 2012 was $159,000 of unrealized gains. Level 3 asset activity for the year ended June 30, 2011 was $1.9 million of purchases.

11. NATURAL CLASSIFICATION OF EXPENSES

Expenses by natural classification for operating activities excluding loss on debt defeasance for the year ended June 30, 2012, are as follows (in thousands):

	Museum	School	Ox-Bow	Total	% of Total
Salaries and wages	$ 27,541	$ 47,291	$ 703	$ 75,535	35.9%
Fringe benefits	9,259	13,780	109	23,148	11.0%
Contracted services	13,073	11,353	148	24,574	11.6%
Equipment, rental, and maintenance	2,249	8,555	35	10,839	5.1%
Travel and entertainment	1,364	1,686	47	3,097	1.5%
Telephone, copy, fax, and postage	1,658	1,377	21	3,056	1.4%
Supplies, books, and subscriptions	2,286	1,672	51	4,009	1.9%
Publications and printing	2,722	836		3,558	1.7%
Publicity and promotions	1,191	796		1,987	0.9%
Cost of sales	5,934	1,707		7,641	3.6%
Utilities	3,335	2,755		6,090	2.9%
Bad debt	50	587		637	0.3%
Accretion expense	10	20		30	0.0%
Interest and debt issuance cost amortization	7,295	4,805		12,100	5.7%
Depreciation	17,538	8,914	216	26,668	12.6%
Other	4,691	3,101	364	8,156	3.9%
Total	$ 100,196	$ 109,235	$ 1,694	$ 211,125	100%

Expenses by natural classification for operating activities for the year ended June 30, 2011, are as follows (in thousands):

	Museum	School	Ox-Bow	Total	% of Total
Salaries and wages	$ 26,314	$ 43,623	$ 654	$ 70,591	33.5%
Fringe benefits	10,867	14,081	88	25,036	11.9%
Contracted services	14,081	10,380	36	24,497	11.7%
Equipment, rental, and maintenance	2,579	9,168	45	11,792	5.6%
Travel and entertainment	1,513	1,704	44	3,261	1.6%
Telephone, copy, fax, and postage	1,730	1,178	11	2,919	1.4%
Supplies, books, and subscriptions	2,090	1,438	53	3,581	1.7%
Publications and printing	2,538	945		3,483	1.7%
Publicity and promotions	1,113	798		1,911	0.9%
Cost of sales	5,489	1,588		7,077	3.4%
Utilities	3,388	2,948		6,336	3.0%
Bad debt	10	1,460		1,470	0.7%
Accretion expense	14	38		52	0.0%
Interest and debt issuance cost amortization	7,987	4,959		12,946	6.2%
Depreciation	17,515	8,125	215	25,855	12.3%
Other	5,017	3,697	438	9,152	4.4%
Total	$ 102,245	$ 106,130	$ 1,584	$ 209,959	100%

12. RELATED-PARTY TRANSACTIONS

All members of the Board of Trustees, Board of Governors, and Standing and Advisory Committees, and all officers and vice presidents of the Institute (collectively, "Related Parties") must act in the best interests of the Institute, without regard to their business, family, or personal activities and concerns. If a Related Party believes he or she has an actual or potential financial conflict of interest, the Related Party must immediately disclose such conflict to the Institute's General Counsel. The Related Party may not vote on, approve, or recommend any action or matter in which he or she has an actual or potential conflict of interest. In the event of an actual or potential conflict, the Related Party cannot be counted for purposes of determining whether there is a quorum. Financial interests or other activities that would constitute a conflict of interest if undertaken by a Related Party also constitute a conflict of interest if undertaken by an immediate family member of the Related Party and must be disclosed by the Related Party. All Related Parties, other than Life Trustees and members of the curatorial, museum education, library, conservation, and other Advisory Committees, are required to attest annually to their familiarity with this policy and to provide any information the Institute deems relevant concerning any possible conflicts of interest.

13. SUBSEQUENT EVENTS

The Institute evaluated activity through September 27, 2012, the date the consolidated financial statements were issued, and concluded that no subsequent events have occurred that would require recognition or that have not been disclosed elsewhere.

14. CONSOLIDATING STATEMENTS

On September 1, 1995, AIC agreed to sponsor Ox-Bow, a separate 501(c)(3) not-for-profit organization, by providing sufficient funding annually, including funding for operating expenses. Ox-Bow conducts a school of the arts, offering degree and non-degree courses. The sponsorship agreement continues for 99 years and is automatically renewable for successive 99-year terms. Within the provisions of the sponsorship agreement, AIC has the ability to appoint a majority of Ox-Bow's Board members. Inter-entity transactions and balances have been eliminated in consolidation.

Effective July 1, 2012 the sponsorship agreement noted above was terminated and replaced with a new agreement. The terms contained in the new agreement no longer require AIC to consolidate Ox-bow.

The consolidating statement of financial position as of June 30, 2012, is as follows (in thousands):

	AIC	Ox-Bow	Eliminating Entries	Total
Assets:				
Cash and cash equivalents	$ 1,077	$ 2,065	$	$ 3,142
Accounts and investment income receivable	9,811	9	(146)	9,674
Contributions receivable	48,350	219		48,569
Inventories	5,564	5		5,569
Prepaid expenses and other assets	10,904	582		11,486
Investments	803,266			803,266
Property and equipment, net	472,713	5,157		477,870
Total assets	**$ 1,351,685**	**$ 8,037**	**$ (146)**	**$ 1,359,576**
Liabilities and net assets:				
Liabilities:				
Accounts payable and other liabilities	$ 37,827	$ 238	$ (146)	$ 37,919
Deferred revenues and other	19,408	153		19,561
Refundable advances	3,401			3,401
Pension liability	64,545			64,545
Notes payable	270,474	645		271,119
Total liabilities	**395,655**	**1,036**	**(146)**	**396,545**
Net assets:				
Unrestricted	75,797	752		76,549
Temporarily restricted	560,061	5,628		565,689
Permanently restricted	320,172	621		320,793
Total net assets	**956,030**	**7,001**	**-**	**963,031**
Total liabilities and net assets	**$ 1,351,685**	**$ 8,037**	**$ (146)**	**$ 1,359,576**

14. CONSOLIDATING STATEMENTS (continued)

The consolidating statement of activities for the year ended June 30, 2012, is as follows (in thousands):

	AIC	Ox-Bow	Eliminating Entries	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 119,455	$ 1,015	$	$ 120,470
Student aid	(31,056)	(535)		(31,591)
Tuition and student program fees, net	88,399	480	-	88,879
Contributions	45,190	506	(60)	45,636
Chicago Park District tax	5,537			5,537
Museum admissions	9,529			9,529
Membership dues	6,725			6,725
Special exhibitions, catalogues, and other revenues	227			227
Other program revenues	8,909			8,909
Investment return designated for current use	37,352			37,352
Auxiliary activities	25,075			25,075
Other	3,590	(79)		3,511
Net assets released from restrictions				-
Total operating revenue, gains, and other support	230,533	907	(60)	231,380
Expenses and losses:				
Programs services:				
Curatorial, libraries, and collections	30,994			30,994
Special exhibitions	4,408			4,408
Museum education	2,512			2,512
Other programs	7,337			7,337
Instructional and academic	76,129	976	(60)	77,045
Auxiliary activities	16,754			16,754
Managerial and general:				
General administration	23,600	252		23,852
Depreciation	26,452	216		26,668
Interest and debt issuance cost amortization	12,100			12,100
Member development	2,260			2,260
Fund raising	6,885	310		7,195
Total expenses and losses	209,431	1,754	(60)	211,125
Change in net assets from operations before debt defeasance	21,102	(847)	-	20,255
Loss on debt defeasance	(209)			(209)
Change in net assets from operations	**20,893**	**(847)**	-	**20,046**
Nonoperating revenue, expenses, support, gains, and losses:				
Proceeds from the sale of art objects	9,453			9,453
Contributions for the purchase of art objects	1,994			1,994
Net assets released to fund acquisition of art objects				-
Investment return designated for art purchases	3,267			3,267
Acquisition of art objects	(10,289)			(10,289)
Pension-related changes other than net periodic pension cost	(27,195)			(27,195)
Investment return less than amounts designated for current operations and art purchases	(47,550)			(47,550)
Endowment transfer to third party not-for-profit entity	(655)			(655)
Other transfers				-
Change in net assets	**(50,082)**	**(847)**	-	**(50,929)**
Net assets, beginning of year	1,006,112	7,848		1,013,960
Net assets, end of year	**$ 956,030**	**$ 7,001**	**$ -**	**$ 963,031**

14. CONSOLIDATING STATEMENTS (continued)

The consolidating statement of financial position as of June 30, 2011, is as follows (in thousands):

	AIC	Ox-Bow	Eliminating Entries	Total
Assets:				
Cash and cash equivalents	$ 2,037	$ 1,813	$	$ 3,850
Accounts and investment income receivable	9,670	334	(348)	9,656
Contributions receivable	57,582	825		58,407
Inventories	7,113	9		7,122
Prepaid expenses and other assets	23,704	590		24,294
Investments	837,797			837,797
Property and equipment, net	476,580	5,336		481,916
Total assets	**$ 1,414,483**	**$ 8,907**	**$ (348)**	**$ 1,423,042**
Liabilities and net assets:				
Liabilities:				
Accounts payable and other liabilities	$ 41,769	$ 403	$ (348)	$ 41,824
Deferred revenues and other	20,301	6		20,307
Refundable advances	3,355			3,355
Pension liability	40,709			40,709
Notes payable	302,237	650		302,887
Total liabilities	**408,371**	**1,059**	**(348)**	**409,082**
Net assets:				
Unrestricted	114,184	1,466		115,650
Temporarily restricted	579,645	5,778		585,423
Permanently restricted	312,283	604		312,887
Total net assets	**1,006,112**	**7,848**	**-**	**1,013,960**
Total liabilities and net assets	**$ 1,414,483**	**$ 8,907**	**$ (348)**	**$ 1,423,042**

14. CONSOLIDATING STATEMENTS (continued)

The consolidating statement of activities for the year ended June 30, 2011, is as follows (in thousands):

	AIC	Ox-Bow	Eliminating Entries	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 114,831	$ 1,037	$	$ 115,868
Student aid	(30,008)	(210)		(30,218)
Tuition and student program fees, net	84,823	827	-	85,650
Contributions	69,252	1,000	(60)	70,192
Chicago Park District tax	6,138			6,138
Museum admissions	8,571			8,571
Membership dues	6,618			6,618
Special exhibitions, catalogues, and other revenues	422			422
Other program revenues	8,280			8,280
Investment return designated for current use	34,940			34,940
Auxiliary activities	23,915			23,915
Other	808	223		1,031
Net assets released from restrictions				-
Total operating revenue, gains, and other support	243,767	2,050	(60)	245,757
Expenses and losses:				
Programs services:				
Curatorial, libraries, and collections	31,810			31,810
Special exhibitions	4,801			4,801
Museum education	2,514			2,514
Other programs	7,635			7,635
Instructional and academic	71,472	960	(60)	72,372
Auxiliary activities	16,313			16,313
Managerial and general:				
General administration	26,295	126		26,421
Depreciation	25,640	215		25,855
Interest and debt issuance cost amortization	12,946			12,946
Member development	1,922			1,922
Fund raising	6,794	283		7,077
Other	293			293
Total expenses and losses	208,435	1,584	(60)	209,959
Change in net assets from operations	**35,332**	**466**	**-**	**35,798**
Nonoperating revenue, expenses, support, gains, and losses:				
Proceeds from the sale of art objects	75,333			75,333
Contributions for the purchase of art objects	3,474			3,474
Net assets released to fund acquisition of art objects				-
Investment return designated for art purchases	3,336			3,336
Acquisition of art objects	(83,107)			(83,107)
Pension-related changes other than net periodic pension cost	19,206			19,206
Investment return in excess of amounts designated for current operations and art purchases	105,211			105,211
Other transfers				-
Change in net assets	**158,785**	**466**	**-**	**159,251**
Net assets, beginning of year	847,327	7,382		854,709
Net assets, end of year	**$ 1,006,112**	**$ 7,848**	**$ -**	**$ 1,013,960**

14. CONSOLIDATING STATEMENTS (continued)

The consolidating condensed cash flow activity for the years ended June 30, 2012 and 2011, is as follows (in thousands):

	For the year ended 2012		
	AIC	Ox-Bow	Total
Net cash (used in) provided by operating activities	$ (8,901)	$ 294	$ (8,607)
Net cash provided by (used in) investing activities	8,242	(37)	8,205
Net cash used in financing activities	(301)	(5)	(306)
Net (decrease) increase in cash and cash equivalents	**(960)**	**252**	**(708)**
Cash and cash equivalents at the beginning of the year	2,037	1,813	3,850
Cash and cash equivalents at the end of the year	**$ 1,077**	**$ 2,065**	**$ 3,142**

	For the year ended 2011		
	AIC	Ox-Bow	Total
Net cash (used in) provided by operating activities	$ (2,383)	$ 350	$ (2,033)
Net cash used in investing activities	(36,075)	(38)	(36,113)
Net cash provided by financing activities	36,710		36,710
Net (decrease) increase in cash and cash equivalents	**(1,748)**	**312**	**(1,436)**
Cash and cash equivalents at the beginning of the year	3,785	1,501	5,286
Cash and cash equivalents at the end of the year	**$ 2,037**	**$ 1,813**	**$ 3,850**

15. AIC STATEMENTS OF ACTIVITIES

AIC statement of activities, which excludes Ox-Bow, for the year ended June 30, 2012, is as follows (in thousands):

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 119,455	$	$	$ 119,455
Student aid	(31,056)			(31,056)
Tuition and student program fees, net	88,399	-	-	88,399
Contributions	23,475	13,713	8,002	45,190
Chicago Park District tax	5,537			5,537
Museum admissions	9,529			9,529
Membership dues	6,725			6,725
Special exhibitions, catalogues, and other revenues	227			227
Other program revenues	8,909			8,909
Investment return designated for current use	13,700	23,652		37,352
Auxiliary activities	25,075			25,075
Other	3,590			3,590
Net assets released from restrictions	37,513	(37,513)		-
Total operating revenue, gains, and other support	222,679	(148)	8,002	230,533
Expenses and losses:				
Programs services:				
Curatorial, libraries, and collections	30,994			30,994
Special exhibitions	4,408			4,408
Museum education	2,512			2,512
Other programs	7,337			7,337
Instructional and academic	76,129			76,129
Auxiliary activities	16,754			16,754
Managerial and general:				
General administration	23,600			23,600
Depreciation	26,452			26,452
Interest and debt issuance cost amortization	12,100			12,100
Member development	2,260			2,260
Fund raising	6,885			6,885
Total expenses and losses	209,431	-	-	209,431
Change in net assets from operations before debt defeasance	13,248	(148)	8,002	21,102
Loss on debt defeasance	(209)			(209)
Change in net assets from operations	**13,039**	**(148)**	**8,002**	**20,893**
Nonoperating revenue, expenses, support, gains, and losses:				
Proceeds from the sale of art objects		9,453		9,453
Contributions for the purchase of art objects		1,786	208	1,994
Net assets released to fund acquisition of art objects	10,200	(10,200)		-
Investment return designated for art purchases	2	3,225	40	3,267
Acquisition of art objects	(10,289)			(10,289)
Pension-related changes other than net periodic pension cost	(27,195)			(27,195)
Investment return less than amounts designated for current operations and art purchases	(20,861)	(26,571)	(118)	(47,550)
Endowment transfer to third party not-for-profit entity		(576)	(79)	(655)
Other transfers	(3,283)	3,447	(164)	-
Change in net assets	**(38,387)**	**(19,584)**	**7,889**	**(50,082)**
Net assets, beginning of year	114,184	579,645	312,283	1,006,112
Net assets, end of year	**$ 75,797**	**$ 560,061**	**$ 320,172**	**$ 956,030**

15. AIC STATEMENTS OF ACTIVITIES (continued)

AIC statement of activities, which excludes Ox-Bow, for the year ended June 30, 2011, is as follows (in thousands):

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 114,831	$	$	$ 114,831
Student aid	(30,008)			(30,008)
Tuition and student program fees, net	84,823	-	-	84,823
Contributions	24,862	23,567	20,823	69,252
Chicago Park District tax	6,138			6,138
Museum admissions	8,571			8,571
Membership dues	6,618			6,618
Special exhibitions, catalogues, and other revenues	422			422
Other program revenues	8,280			8,280
Investment return designated for current use	13,431	21,509		34,940
Auxiliary activities	23,915			23,915
Other	808			808
Net assets released from restrictions	36,716	(36,716)		-
Total operating revenue, gains, and other support	214,584	8,360	20,823	243,767
Expenses and losses:				
Programs services:				
Curatorial, libraries, and collections	31,810			31,810
Special exhibitions	4,801			4,801
Museum education	2,514			2,514
Other programs	7,635			7,635
Instructional and academic	71,472			71,472
Auxiliary activities	16,313			16,313
Managerial and general:				
General administration	26,295			26,295
Depreciation	25,640			25,640
Interest and debt issuance cost amortization	12,946			12,946
Member development	1,922			1,922
Fund raising	6,794			6,794
Other			293	293
Total expenses and losses	208,142	-	293	208,435
Change in net assets from operations	**6,442**	**8,360**	**20,530**	**35,332**
Nonoperating revenue, expenses, support, gains, and losses:				
Proceeds from the sale of art objects		75,333		75,333
Contributions for the purchase of art objects		3,471	3	3,474
Net assets released to fund acquisition of art objects	82,885	(82,885)		-
Investment return designated for art purchases	(58)	3,315	79	3,336
Acquisition of art objects	(83,107)			(83,107)
Pension-related changes other than net periodic pension cost	19,206			19,206
Investment return in excess of amounts designated for current operations and art purchases	35,828	68,890	493	105,211
Other transfers	(978)	(518)	1,496	-
Change in net assets	**60,218**	**75,966**	**22,601**	**158,785**
Net assets, beginning of year	53,966	503,679	289,682	847,327
Net assets, end of year	**$ 114,184**	**$ 579,645**	**$ 312,283**	**$ 1,006,112**

15. AIC STATEMENTS OF ACTIVITIES (continued)

Unrestricted activity for museum programs for the years ended June 30, 2012 and 2011, is as follows (in thousands):

	Museum	
	2012	2011
Operating revenue, gains, and other support:		
Contributions	$ 19,598	$ 20,810
Chicago Park District tax	5,537	6,138
Museum admissions	9,529	8,571
Membership dues	6,725	6,618
Special exhibitions	227	422
Other program revenues	3,660	3,797
Investment return designated for current use	10,662	10,705
Auxiliary activities	15,967	15,078
Other	2,876	417
Net assets released from restrictions	30,842	29,767
Total	105,623	102,323
Expenses:		
Programs services:		
Curatorial, libraries, and collections	30,994	31,810
Special exhibitions	4,408	4,801
Museum education	2,512	2,514
Other programs	5,655	6,020
Auxiliary activities	13,370	13,210
Managerial and general:		
General administration	11,160	11,645
Depreciation	17,538	17,515
Interest and debt issuance cost amortization	7,295	7,987
Member development	2,260	1,922
Fund raising	5,004	4,821
Total	100,196	102,245
Change in net assets from operations before debt defeasance	5,427	78
Loss on debt defeasance	(104)	
Change in net assets from operations	**$ 5,323**	**$ 78**

15. AIC STATEMENTS OF ACTIVITIES (continued)

Unrestricted activity for School programs for the years ended June 30, 2012 and 2011, is as follows (in thousands):

	School	
	2012	2011
Operating revenue, gains, and other support:		
Tuition and student program fees	$ 119,455	$ 114,831
Student aid	(31,056)	(30,008)
Tuition and student program fees, net	88,399	84,823
Contributions	3,877	4,052
Other program revenues	5,249	4,483
Investment return designated for current use	3,038	2,726
Auxiliary activities	9,108	8,837
Other	714	391
Net assets released from restrictions	6,671	6,949
Total	117,056	112,261
Expenses:		
Programs services:		
Other programs	1,682	1,615
Instructional and academic	76,129	71,472
Auxiliary activities	3,384	3,103
Managerial and general:		
General administration	12,440	14,650
Depreciation	8,914	8,125
Interest and debt issuance cost amortization	4,805	4,959
Fund raising	1,881	1,973
Total	109,235	105,897
Change in net assets from operations before debt defeasance	7,821	6,364
Loss on debt defeasance	(105)	
Change in net assets from operations	**$ 7,716**	**$ 6,364**