The Art Institute of Chicago

Financial Statements as of and for the Years Ended June 30, 2014 and 2013, Supplementary Information as of and for the Years Ended June 30, 2014 and 2013, 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:

Report on the Financial Statements

We have audited the accompanying financial statements of The Art Institute of Chicago (the "Institute") as of June 30, 2014 and 2013, and for the years then ended, as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of June 30, 2014 and 2013, the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. This supplementary information is the responsibility of the Institute's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLP

September 29, 2014

THE ART INSTITUTE OF CHICAGO

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2014 AND 2013
(In thousands)

	2014	2013
Assets:		
Cash and cash equivalents	$ 16,189	$ 6,196
Accounts and investment income receivable	9,780	9,056
Contributions receivable	51,574	34,817
Inventories	5,480	5,662
Prepaid expenses and other assets	7,363	11,375
Investments	998,024	873,941
Property and equipment, net	454,133	463,513
Total assets	**$ 1,542,543**	**$ 1,404,560**
Liabilities and net assets:		
Liabilities:		
Accounts payable and other liabilities	$ 32,843	$ 32,854
Deferred revenues and other	20,994	23,243
Refundable advances	3,598	3,495
Pension liability	8,746	12,697
Notes payable	283,000	295,235
Total liabilities	**349,181**	**367,524**
Net assets:		
Unrestricted	183,572	127,764
Temporarily restricted	658,672	581,898
Permanently restricted	351,118	327,374
Total net assets	**1,193,362**	**1,037,036**
Total liabilities and net assets	**$ 1,542,543**	**$ 1,404,560**

See notes to financial statements.

THE ART INSTITUTE OF CHICAGO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(In thousands)

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 133,296	$	$	$ 133,296
Student aid	(35,074)			(35,074)
Tuition and student program fees, net	98,222			98,222
Contributions	21,401	25,289	23,076	69,766
Chicago Park District tax	5,614			5,614
Museum admissions	12,959			12,959
Membership dues	8,156			8,156
Special exhibitions, catalogues, and other revenues	1,097			1,097
Other program revenues	11,609			11,609
Investment return designated for current use	17,098	23,636		40,734
Auxiliary activities	27,423			27,423
Other	853			853
Net assets released from restrictions	39,588	(39,588)		-
Total operating revenue, gains, and other support	244,020	9,337	23,076	276,433
Expenses and losses:				
Programs services:				
Instructional and academic	82,461			82,461
Curatorial, libraries, and collections	33,440			33,440
Special exhibitions	6,985			6,985
Museum education	2,842			2,842
Other programs	8,622			8,622
Auxiliary activities	17,695			17,695
Managerial and general:				
General administration	25,432			25,432
Depreciation	27,808			27,808
Interest and debt issuance cost amortization	11,900			11,900
Member development	3,041			3,041
Fund raising	6,795			6,795
Total expenses and losses	227,021			227,021
Change in net assets from operations	**16,999**	**9,337**	**23,076**	**49,412**
Nonoperating revenue, expenses, support, gains, and losses:				
Proceeds from the sale of art objects		16,677		16,677
Contributions for the purchase of art objects		4,512	242	4,754
Net assets released to fund acquisition of art objects	17,409	(17,409)		-
Investment return designated for art purchases	16	3,473		3,489
Acquisition of art objects	(17,908)			(17,908)
Pension-related changes other than net periodic pension cost	1,976			1,976
Investment return in excess of amounts designated for current operations and art purchases	37,247	60,252	427	97,926
Other transfers	69	(68)	(1)	-
Change in net assets	**55,808**	**76,774**	**23,744**	**156,326**
Net assets, beginning of year	127,764	581,898	327,374	1,037,036
Net assets, end of year	**$ 183,572**	**$ 658,672**	**$ 351,118**	**$ 1,193,362**

See notes to financial statements.

THE ART INSTITUTE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(In thousands)

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 125,117	$	$	$ 125,117
Student aid	(33,281)			(33,281)
Tuition and student program fees, net	91,836			91,836
Contributions	20,628	10,796	7,237	38,661
Chicago Park District tax	5,576			5,576
Museum admissions	11,813			11,813
Membership dues	7,117			7,117
Special exhibitions, catalogues, and other revenues	553			553
Other program revenues	9,328			9,328
Investment return designated for current use	16,841	22,450		39,291
Auxiliary activities	27,048			27,048
Other	867			867
Net assets released from restrictions	38,515	(38,515)		-
Total operating revenue, gains, and other support	230,122	(5,269)	7,237	232,090
Expenses and losses:				
Programs services:				
Instructional and academic	81,374			81,374
Curatorial, libraries, and collections	34,622			34,622
Special exhibitions	5,332			5,332
Museum education	2,697			2,697
Other programs	7,838			7,838
Auxiliary activities	17,639			17,639
Managerial and general:				
General administration	27,974			27,974
Depreciation	27,723			27,723
Interest and debt issuance cost amortization	12,005			12,005
Member development	3,496			3,496
Fund raising	6,881			6,881
Other		383		383
Total expenses and losses	227,581	383		227,964
Change in net assets from operations before debt defeasance	2,541	(5,652)	7,237	4,126
Loss on debt defeasance	(1,564)			(1,564)
Change in net assets from operations	**977**	**(5,652)**	**7,237**	**2,562**
Nonoperating revenue, expenses, support, gains, and losses:				
Proceeds from the sale of art objects		6,231		6,231
Contributions for the purchase of art objects		1,807	454	2,261
Net assets released to fund acquisition of art objects	16,283	(16,283)		-
Investment return designated for art purchases	20	3,363		3,383
Acquisition of art objects	(16,457)			(16,457)
Pension-related changes other than net periodic pension cost	25,945			25,945
Investment return in excess of amounts designated for current operations and art purchases	24,257	32,556	268	57,081
Other transfers	942	(185)	(757)	-
Change in net assets before deconsolidation	**51,967**	**21,837**	**7,202**	**81,006**
Deconsolidation of Ox-Bow	(752)	(5,628)	(621)	(7,001)
Change in net assets	**51,215**	**16,209**	**6,581**	**74,005**
Net assets, beginning of year	76,549	565,689	320,793	963,031
Net assets, end of year	**$ 127,764**	**$ 581,898**	**$ 327,374**	**$ 1,037,036**

See notes to financial statements.

THE ART INSTITUTE OF CHICAGO

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2014 AND
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2013
(In thousands)

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 156,326	$ 74,005
Change in net assets from deconsolidation of Ox-Bow		7,001
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	25,463	25,387
Loss on retirement of property	15	814
Loss on debt defeasance		1,564
Change in pension liability	(3,951)	(51,848)
Contributions restricted for permanently restricted endowment, net	(18,561)	(5,847)
Contributions restricted for capital campaign, net	(1,135)	(4,797)
Other losses	10	383
Net unrealized and realized gains on investments	(134,492)	(93,161)
Acquisitions and sales of art, net	1,652	10,226
Change in assets and liabilities:		
Accounts and investment income receivable	(724)	755
Prepaid expenses, other assets, and inventories	1,536	(1,531)
Unrestricted and temporarily restricted contributions receivable	(16,891)	2,726
Accounts payable and other liabilities	(453)	(1,923)
Refundable advances	103	94
Deferred revenues and other	(2,249)	3,835
Net cash provided by (used in) operating activities	**6,649**	**(32,317)**
Cash flows from investing activities:		
Purchases of property and equipment	(18,419)	(20,457)
Proceeds from sales of art objects	16,677	6,231
Acquisition of art objects	(17,908)	(18,363)
Other assets restricted for debt service	2,654	962
Proceeds from sales of investments	83,883	80,637
Purchases of investments	(68,714)	(56,468)
Net cash used in investing activities	**(1,827)**	**(7,458)**
Cash flows from financing activities:		
Proceeds from contributions restricted for permanently restricted endowment	9,109	8,609
Proceeds from capital campaign	5,952	10,752
Payments on notes payable	(10,490)	(147,560)
Proceeds from notes payable	600	173,093
Net cash provided by financing activities	**5,171**	**44,894**
Net increase in cash and cash equivalents	**9,993**	**5,119**
Cash and cash equivalents at the beginning of year	6,196	3,142
Decrease in cash and cash equivalents due to Ox-Bow deconsolidation		(2,065)
Cash and cash equivalents at the end of year	**$ 16,189**	**$ 6,196**
Supplemental data: Interest paid	$ 13,747	$ 13,716
Supplemental disclosure of noncash items: Property and art purchase additions included in accounts payable	$ 6,296	$ 5,851

See notes to financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In fiscal year 1996, the Institute entered into a sponsorship agreement with Ox-Bow, a separate 501(c)(3) not-for-profit organization that conducts a school of the arts. The terms of the agreement required consolidation of Ox-Bow in the Institute's financial statements. Effective July 1, 2012, the sponsorship agreement with Ox-Bow was terminated and replaced with a new agreement. The terms contained in the new agreement no longer require the Institute to consolidate Ox-Bow. The accompanying financial statements and notes to the financial statements for fiscal year 2013 include the deconsolidation of Ox-Bow from the Institute.

The accompanying 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, disclosures of contingencies at the date of the 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 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.

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

Permanently restricted net assets are those that are subject to donor-imposed restrictions that will never lapse and 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 is 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.

Art objects and library collections - The value of the art objects in the permanent collection, as well as the holdings of the libraries, is excluded from the 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 initially adopted in 1975 and revised in fiscal year 2013. The objects are generally offered for sale at a public auction, and the proceeds from such dispositions 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 includes currency on hand, as well as demand deposits with banks or financial institutions. The Institute maintains its cash balances in various bank deposit accounts which, at times, may exceed Federal Deposit Insurance Corporation limits. The Institute believes it is not exposed to any significant credit risk on cash balances. Cash equivalents are stated at cost, which approximates fair value, and consist of institutional money market funds or bank deposits. Cash equivalents held by long-term investment managers are classified as investments; see Note 2 for further discussion.

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 maintained in a Restricted Pledge Fund, as stipulated in the Series 2012A and Series 2010B bond indenture agreements. As of June 30, 2014 and 2013, the Restricted Pledge Fund balance was $693,000 and $3.3 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.

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

The Institute owns 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 prescribes 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.

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 financial statements.

Long-term investing is governed by the Institute'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 the Institute'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.

The Institute 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 liability - 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 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 consist primarily of asbestos removal costs for which the Institute may have a legal obligation to remediate; 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 - Special exhibitions, catalogues, and other revenues include certain exhibition participation fees and certain exhibition catalogue revenues. All other 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.

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

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 was approximately $379,000 in 2014 and $371,000 in 2013. The full 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.

In-kind support - The Institute records various types of in-kind support, including contributed equipment, services, and other property. Contributions of tangible assets, excluding art objects, and services are recognized at fair value when received. The amounts reflected in the accompanying 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 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.

Financial Accounting Standards Board 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 $8.3 million for tax periods through June 30, 2013. The Institute does not have the ability to estimate the NOL through June 30, 2014, 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 2033. The Institute has not recorded a tax benefit for these NOLs for the years ended June 30, 2014 and 2013, because it is unlikely 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.

Recently adopted accounting pronouncements - Effective July 1, 2013, the Institute adopted Accounting Standards Update ("ASU") No. 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which amends ASC 320, *Statement of Cash Flows*. The amendment requires classification of cash receipts from the sale of donated financial assets consistent with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any organization-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets are classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case, those cash receipts are classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets are classified as cash flows from investing activities by the organization. The adoption of this amendment did not materially impact the Institute's statements of cash flows.

2. INVESTMENTS

Investments as of June 30, 2014 and 2013, consist of the following (in thousands):

	2014		
	Pooled	Non-Pooled Investments	Total
Cash and cash equivalents	$ 10,433	$ 7,635	$ 18,068
Fixed income securities	50,299	3,776	54,075
Equity securities	462,201	3,973	466,174
Hedge funds	218,337		218,337
Venture capital and private equity	101,457		101,457
Real assets	92,502		92,502
Total assets held for investment	935,229	15,384	950,613
Assets held in trust by others	-	47,411	47,411
Total investments	$ 935,229	$ 62,795	$ 998,024

	2013		
	Pooled	Non-Pooled Investments	Total
Cash and cash equivalents	$ 7,974	$ 7,902	$ 15,876
Fixed income securities	41,443	3,516	44,959
Equity securities	415,550	3,564	419,114
Hedge funds	173,139		173,139
Venture capital and private equity	96,037		96,037
Real assets	82,212		82,212
Total assets held for investment	816,355	14,982	831,337
Assets held in trust by others		42,604	42,604
Total investments	$ 816,355	$ 57,586	$ 873,941

Cash and cash equivalents included in long-term investments may consist of short-term United States Treasury obligations, high-grade commercial paper, certificates of deposit, or money market funds. 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 are 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 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.

Assets held in trust by others includes the Institute's beneficial interest in perpetual trusts, charitable remainder trusts, and pooled income funds held by third parties. The Institute recognizes the initial contribution, subsequent adjustments, and the asset at fair value based on market value of the trust's underlying assets as provided by the trustee. Subsequent adjustments to the fair value are included in permanently restricted contributions in the statements of activities. Income distributions received from the trusts are recognized in unrestricted or temporarily restricted investment return designated for current use in accordance with the donor restrictions.

2. INVESTMENTS (continued)

Investments as of June 30, 2014 and 2013, as a percentage, consist of the following:

	2014		
	Pooled	Non-Pooled Investments	Total
Cash and cash equivalents	1.1 %	12.2 %	1.8 %
Fixed income securities	5.4	6.0	5.4
Equity securities	49.4	6.3	46.7
Hedge funds	23.4		21.9
Venture capital and private equity	10.8		10.2
Real assets	9.9		9.3
Total assets held for investment	100.0	24.5	95.3
Assets held in trust by others		75.5	4.7
Total investments	100.0 %	100.0 %	100.0 %

	2013		
	Pooled	Non-Pooled Investments	Total
Cash and cash equivalents	1.0 %	13.7 %	1.8 %
Fixed income securities	5.1	6.1	5.1
Equity securities	50.8	6.2	48.0
Hedge funds	21.2		19.8
Venture capital and private equity	11.8		11.0
Real assets	10.1		9.4
Total assets held for investment	100.0	26.0	95.1
Assets held in trust by others		74.0	4.9
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, 2014 and 2013, are as follows (in thousands):

	For the year ended 2014			
	Assets Held for Investment		Assets Held	
Change in fair value:	Pooled	Non-Pooled	in Trust	Total
Realized	$ 30,723	$ 250	$ 6	$ 30,979
Unrealized	102,983	488	42	103,513
Dividend and interest income	7,992	163	2,068	10,223
Cash gifts and other additions	10,161	5,952	4,759	20,872
Transfers in (out)	12,321	(6,445)	(8)	5,868
Investment management fees	(2,651)	(6)		(2,657)
Allocation of spendable funds	(42,655)		(2,060)	(44,715)
Net change in fair value	118,874	402	4,807	124,083
Fair value, beginning of year	816,355	14,982	42,604	873,941
Fair value, end of year	$ 935,229	$ 15,384	$ 47,411	$ 998,024

	For the year ended 2013			
	Assets Held for Investment		Assets Held	
Change in fair value:	Pooled	Non-Pooled	in Trust	Total
Realized	$ 22,775	$ 298	$	$ 23,073
Unrealized	69,949	141		70,090
Dividend and interest income	7,463	187	2,128	9,778
Cash gifts and other additions	12,236	10,752	1,682	24,670
Transfers in (out)	444	(11,688)		(11,244)
Investment management fees	(2,634)	(9)		(2,643)
Allocation of spendable funds	(40,921)		(2,128)	(43,049)
Net change in fair value	69,312	(319)	1,682	70,675
Fair value, beginning of year	747,043	15,301	40,922	803,266
Fair value, end of year	$ 816,355	$ 14,982	$ 42,604	$ 873,941

Realized and unrealized gains and (losses) included in the statements of activities for the years ended June 30, 2014 and 2013, are reported in the financial statement as 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, 2014 and 2013, are summarized as follows:

	2014		2013	
	Fair Value	Rate of Return	Fair Value	Rate of Return
Pooled Endowment Funds Investments	$ 935,229	17.3%	$ 816,355	13.5%

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:

<u>Level 1</u> - 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.

<u>Level 2</u> - 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.

<u>Level 3</u> - 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.

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 based on capital markets or other methods deemed appropriate.

2. INVESTMENTS (continued)

The Institute's investments are classified as follows, based on fair values, as of June 30, 2014 (in thousands):

	2014			
Pooled Investments	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 10,433	$	$	$ 10,433
Fixed income securities	50,299			50,299
Equity securities	111,312	317,314	33,575	462,201
Hedge funds		127,501	90,836	218,337
Venture capital and private equity			101,457	101,457
Real assets	25,458	19,754	47,290	92,502
Total Pooled Investments	197,502	464,569	273,158	935,229
Non-Pooled Investments				
Cash and cash equivalents	7,635			7,635
Fixed income securities	1,766	2,010		3,776
Equity securities	3,973			3,973
Assets held in trust by others	41,340	5,264	807	47,411
Total Non-Pooled Investments	54,714	7,274	807	62,795
Total Investments	$ 252,216	$ 471,843	$ 273,965	$ 998,024

The Institute's investments are classified as follows, based on fair values, as of June 30, 2013 (in thousands):

	2013			
Pooled Investments	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 7,974	$	$	$ 7,974
Fixed income securities	41,443			41,443
Equity securities	130,240	256,323	28,987	415,550
Hedge funds		108,067	65,072	173,139
Venture capital and private equity			96,037	96,037
Real assets	11,411	27,582	43,219	82,212
Total Pooled Investments	191,068	391,972	233,315	816,355
Non-Pooled Investments				
Cash and cash equivalents	7,902			7,902
Fixed income securities		3,516		3,516
Equity securities	3,564			3,564
Assets held in trust by others	39,188	2,929	487	42,604
Total Non-Pooled Investments	50,654	6,445	487	57,586
Total Investments	$ 241,722	$ 398,417	$ 233,802	$ 873,941

2. INVESTMENTS (continued)

The following table sets forth a reconciliation of beginning and ending balances for the Level 3 investments for the years ended June 30, 2014 and 2013 (in thousands):

	2014	2013
Beginning balance	$ 233,802	$ 271,949
Total gains		
Realized	16,352	13,432
Unrealized	25,867	10,912
Purchases	36,048	20,774
Sales	(39,880)	(41,973)
Transfers into Level 3	1,841	5,444
Transfers out of Level 3	(65)	(46,736)
Ending balance	$ 273,965	$ 233,802
Amount of unrealized gains relating to assets still held at year end	$ 25,867	$ 10,308

For the years ended June 30, 2014 and 2013, $65,000 and $23.9 million, respectively, was transferred from Level 3 to Level 2 due to the expiration of lockup restrictions on certain equity securities and hedge fund investments. For the year ended June 30, 2014, $1.8 million was transferred from Level 2 to Level 3 due to a change in the value of the redeemable portion of a certain hedge fund investment. For the year ended June 30, 2013, $5.4 million was transferred into Level 3 from Level 2 and $22.8 million was transferred from Level 3 to Level 2 for certain hedge fund investments as a result of the re-evaluation of certain characteristics for these investments. There were no transfers between Levels 1 and 2 for the years ended June 30, 2014 and 2013.

For Level 2 and 3 assets, the unfunded commitments, redemption frequency, and redemption notice period of the pooled investments held at net asset value or its equivalent are as follows as of June 30, 2014 and 2013 (in thousands):

2014	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Lockup or Gate
Equity securities	$ 350,889	N/A	Daily-Annually	1-90 Days	None
Hedge funds	218,337	N/A	Monthly-Annually	45-120 Days	One fund subject to 1 year lockup
Venture capital and private equity	101,457	51,012	N/A	N/A	N/A
Real assets	67,044	27,205	Daily-Annually	1-90 Days	None
Total	$ 737,727	$ 78,217			

2013	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Lockup or Gate
Equity securities	$ 285,310	N/A	Daily-Annually	1-90 Days	None
Hedge funds	173,139	N/A	Monthly-Annually	45-120 Days	None
Venture capital and private equity	96,037	34,669	N/A	N/A	N/A
Real assets	70,801	8,216	Daily-Annually	1-90 Days	None
Total	$ 625,287	$ 42,885			

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 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 the following 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

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

The Institute's endowment net asset composition (including pledges) as of June 30, 2014 and 2013, is as follows (in thousands):

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (292)	$ 275,990	$ 351,118	$ 626,816
Board-designated endowment funds	337,754	39,534		377,288
Total funds	$ 337,462	$ 315,524	$ 351,118	$ 1,004,104

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (2,241)	$ 219,321	$ 327,374	$ 544,454
Board-designated endowment funds	290,129	35,851		325,980
Total funds	$ 287,888	$ 255,172	$ 327,374	$ 870,434

3. ENDOWMENT FUNDS (continued)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) as of June 30, 2014 and 2013, are as follows (in thousands):

	2014	2013
Permanently restricted net assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	$ 351,118	$ 327,374
Temporarily restricted net assets		
Term endowment funds	$ 162,176	$ 143,863
The portion of perpetual endowments subject to a time restriction under UPMIFA	153,348	111,309
Total endowment funds classified as temporarily restricted net assets	$ 315,524	$ 255,172

Changes in endowment net assets for the year ended June 30, 2014, are as follows (in thousands):

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 287,888	$ 255,172	$ 327,374	$ 870,434
Investment income	2,283	8,081	32	10,396
Net appreciation on pooled and non-pooled investments	46,543	84,576	504	131,623
Net appreciation on assets held in trust			4,760	4,760
Contributions		205	18,613	18,818
Appropriation of endowment assets for expenditure	(11,687)	(32,863)	(165)	(44,715)
Transfers to create board-designated endowment funds	12,373	(47)	(207)	12,119
Other changes, net	62	400	207	669
Endowment net assets, end of year	$ 337,462	$ 315,524	$ 351,118	$ 1,004,104

3. ENDOWMENT FUNDS (continued)

Changes in endowment net assets for the year ended June 30, 2013, are as follows (in thousands):

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 262,510	$ 223,211	$ 320,793	$ 806,514
Investment income	2,882	6,487	28	9,397
Net appreciation on pooled and non-pooled investments	37,562	52,397	349	90,308
Net appreciation on assets held in trust			1,845	1,845
Contributions		505	5,899	6,404
Appropriation of endowment assets for expenditure	(16,430)	(26,460)	(159)	(43,049)
Change due to deconsolidation of Ox-Bow		(1,158)	(621)	(1,779)
Other changes, net	1,364	190	(760)	794
Endowment net assets, end of year	$ 287,888	$ 255,172	$ 327,374	$ 870,434

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, 2014 and 2013, $292,000 and $2.2 million, respectively, of donor endowment deficits were reported in unrestricted net assets.

Relationship of Spending Policy to Investment Objectives
The Institute's Executive Committee of the Board of Trustees determines the method to be used to appropriate endowment funds for expenditure. The appropriation amount is 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 nonoperating dependent upon the nature of the appropriation.

The Institute's spendable endowment payout formula is a controlled growth distribution formula. After considering among other factors the standard of prudence prescribed by UPMIFA, 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 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 are reassessed by the Executive Committee 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 Executive Committee.

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 2014 ranged from 0.1% to 2.7% and for fiscal year 2013 ranged from 0.2% to 2.3%. Contributions receivable are expected to be realized as follows (in thousands):

Collectible during the following periods:	2014	2013
Year one	$ 15,115	$ 12,847
Year two	9,152	6,975
Year three	5,136	5,865
Year four	4,315	3,750
Year five and thereafter	23,022	7,309
Gross contributions receivable	56,740	36,746
Fair value adjustment	(3,593)	(984)
Allowance for uncollectible contributions	(1,573)	(945)
Net contributions receivable	$ 51,574	$ 34,817

In fiscal year 2014, the Institute revised its policy on recording legally enforceable promises to give that are payable upon the death of the donor. Previously, such agreements were interpreted as intentions to give and, accordingly, were not recognized in the financial statements. The financial statements include additional contributions receivable and contribution revenue recorded at a fair value of $15.4 million for current and prior year promises to give as a result of implementation of this policy. Because of the uncertainty in the timing of future cash flows associated with these agreements, contributions receivable recognized under this revised policy are classified as Level 3 in the fair value hierarchy in accordance with ASC 820. All other unconditional promises to contribute recorded at fair value are classified as Level 2 within the fair value hierarchy based on market valuation techniques. In determining the classification within the fair value hierarchy, the Institute considered historical and projected cash flow rates. The preceding methods described may produce fair value calculations 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, 2014 and 2013, consist of the following (in thousands):

	2014	2013
Land	$ 11,325	$ 11,325
Buildings and improvements	628,223	614,588
Equipment, furniture, and fixtures	22,536	20,389
Total property and equipment	662,084	646,302
Construction in progress	6,393	6,319
Accumulated depreciation	(214,344)	(189,108)
Property and equipment, net	$ 454,133	$ 463,513

6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities as of June 30, 2014 and 2013, consist of the following (in thousands):

	2014	2013
Accounts payable	$ 16,148	$ 14,959
Art purchase liability		1,000
Asset retirement obligations	5,569	5,639
Accrued salaries and benefits	4,749	4,142
Accrued interest payable	4,450	4,582
Other liabilities	1,927	2,532
Total accounts payable and other liabilities	$ 32,843	$ 32,854

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, 2014 and 2013. The change in the asset retirement obligation for the years ended June 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Asset retirement obligations, beginning of year	$ 5,639	$ 5,721
Accretion expense		31
Settlements paid	(70)	(115)
Change in estimate		2
Asset retirement obligations, end of year	$ 5,569	$ 5,639

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 statements of financial position, statements of activities, or statements 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 $5.0 million and $3.7 million for the years ended June 30, 2014 and 2013, respectively.

Minimum future lease payments under noncancelable operating leases having remaining terms in excess of one year as of June 30, 2014, are as follows (in thousands):

Year ending June 30,	
2015	$ 4,975
2016	3,768
2017	3,694
2018	3,752
2019	3,811
Thereafter	3,554
Total minimum lease payments	$ 23,554

In fiscal year 2014, the Institute entered into an agreement to purchase land at a cost of $23.7 million. A nonrefundable deposit of $500,000 was paid by the Institute and is included in prepaid expenses and other assets in the June 30, 2014, statement of financial position. The transaction is expected to close in fiscal year 2015.

8. NOTES PAYABLE

Notes payable as of June 30, 2014, 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	Coupon Interest Rates at June 30
Bonds:								
Medium/Long-Term Bonds Tax Exempt:								
Adjustable Interest Rate Demand Revenue Bonds:								
Series 2000A	$ 6,000			3/1/2034	At maturity, subject to mandatory tender in 2018	March 1, September 1	5 years	5.25%
Adjustable Interest Rate Medium-Term Revenue Bonds:								
Series 1998A	24,880			3/1/2030	At maturity, subject to mandatory tender in 2016-2017	March 1, September 1	2-3 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 2012A	43,050			3/1/2034	Varying dates and amounts	March 1, September 1	N/A	3.00% to 5.00%
Taxable Bonds:								
Series 2012	40,000			3/1/2027	Varying dates and amounts	March 1, September 1	N/A	1.34% to 3.78%
Total Bonds	277,290	100 %	98 %					
Bank Debt:								
Bank of America $10 million working capital line of credit				4/30/2015	At expiration	Varying dates	Varying dates	LIBOR-based
JP Morgan Chase $25 million working capital line of credit				5/30/2015	At expiration	Varying dates	Varying dates	LIBOR-based
Northern Trust $20 million working capital line of credit				1/24/2016	At expiration	Varying dates	Varying dates	LIBOR-based
Total Outstanding Debt	277,290		98 %					
Unamortized premium	6,534							
Unamortized discount	(824)							
Total	$ 283,000							

8. NOTES PAYABLE (continued)

Notes payable as of June 30, 2013, 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	Coupon Interest Rates at June 30
Bonds:								
Medium/Long-Term Bonds Tax Exempt:								
Adjustable Interest Rate Demand Revenue Bonds:								
Series 2000A	$ 6,000			3/1/2034	At maturity, subject to mandatory tender in 2018	March 1, September 1	5 years	5.25%
Adjustable Interest Rate Medium-Term Revenue Bonds:								
Series 1998A	24,880			3/1/2030	At maturity, subject to mandatory tender in 2016-2017	March 1, September 1	3-4 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 2012A	52,940			3/1/2034	Varying dates and amounts	March 1, September 1	N/A	3.00% to 5.00%
Taxable Bonds:								
Series 2012	40,000			3/1/2027	Varying dates and amounts	March 1, September 1	N/A	1.34% to 3.78%
Total Bonds	287,180	100.0%	97.3%					
Bank Debt:								
Bank of America $10 million working capital line of credit				4/30/2014	At expiration	Varying dates	Varying dates	LIBOR-based
JP Morgan Chase $25 million working capital line of credit				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
Total Outstanding Debt	287,180		97.3%					
Unamortized premium	8,882							
Unamortized discount	(827)							
Total	$ 295,235							

8. NOTES PAYABLE (continued)

The fair value of notes payable as of June 30, 2014 and 2013, is $294.0 million and $304.5 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:

2015	$ 75,310
2016	13,695
2017	13,175
2018	7,130
2019	31,125
2020 and thereafter	136,855
Total	$ 277,290

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, 2014 and 2013. 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, 2014 and 2013 (in thousands):

	2014	2013
Restricted contributions received for acquisition or improvement of long-lived assets	$ 246,761	$ 249,553
Contributions receivable for acquisition or improvement of long-lived assets funded wholly or partially by debt	19,371	13,628
Portion of perpetual endowments subject to a timing restriction under UPMIFA Consistent with state law, these funds are available upon appropriation by the Board	153,348	111,309
Other temporarily restricted net assets available for debt obligations	17,266	18,191
Total temporarily restricted net assets available for debt obligations	$ 436,746	$ 392,681

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

On October 18, 2012, the Institute issued $59.9 million in tax-exempt Series 2012A Revenue Bonds through the Illinois Finance Authority. The proceeds from the Series 2012A bonds were used to advance refund $5.0 million of the outstanding principal amount on the Series 1998A bonds, $26.0 million of the outstanding principal amount on the Series 2000A bonds, $10.9 million of the outstanding principal amount on the Series 2003A bonds, and the outstanding principal amount of the Series 2010B bonds. The Institute elected to make prepayments on these bond issues in order to provide for the legal defeasance of a total of $69.2 million of principal payments with various future maturity dates ranging from March 1, 2013, through March 1, 2023. The Institute deposited cash with the respective bond trustees in irrevocable escrow deposit trust funds for the purpose of purchasing defeasance obligations. The Institute recorded a loss on debt defeasance of $1.6 million for the year ended June 30, 2013.

On October 18, 2012, the Institute issued $40.0 million in Taxable Series 2012 Bonds. The proceeds of the bonds were used by the Institute for funding a portion of the Institute's unfunded pension benefit obligations.

9. RESTRICTIONS ON NET ASSETS

The nature of restrictions on net assets released from donor restrictions for the years ended June 30, 2014 and 2013, are summarized as follows (in thousands):

	2014	2013
Purchase of art objects	$ 17,409	$ 16,283
Purchase of books	203	198
Student aid	4,204	3,619
Museum exhibitions	4,595	3,924
Museum publications	184	239
Gallery maintenance, professorships, and curatorships	6,579	5,893
Restricted contributions received for acquisition or improvement of long-lived assets	10,440	11,326
Education, instruction, and other departmental purposes	13,383	13,316
Total	$ 56,997	$ 54,798

Net assets categorized by donor restrictions as of June 30, 2014, are summarized as follows (in thousands):

	Temporarily Restricted	Permanently Restricted
Purchase of art objects	$ 60,873	$ 35,323
Purchase of books	2,992	2,144
Student aid	39,671	28,006
Museum exhibitions	12,467	25,233
Museum publications	5,989	3,510
Gallery maintenance, professorships, and curatorships	66,365	107,173
Restricted contributions received for acquisition or improvement of long-lived assets	249,876	
Education, instruction, and other departmental purposes	129,109	64,385
Contributions receivable	35,787	12,083
Assets held in trust by others	392	47,018
General purposes	55,151	26,243
Total	$ 658,672	$ 351,118

Net assets categorized by donor restrictions as of June 30, 2013, are summarized as follows (in thousands):

	Temporarily Restricted	Permanently Restricted
Purchase of art objects	$ 44,315	$ 34,769
Purchase of books	2,511	2,144
Student aid	33,587	27,081
Museum exhibitions	9,332	25,183
Museum publications	5,227	3,510
Gallery maintenance, professorships, and curatorships	41,775	83,125
Restricted contributions received for acquisition or improvement of long-lived assets	253,531	
Education, instruction, and other departmental purposes	117,931	80,706
Contributions receivable	26,943	2,634
Assets held in trust by others	347	42,258
General purposes	46,399	25,964
Total	$ 581,898	$ 327,374

10. PENSION BENEFITS

The Institute 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.

In September 2012, the Institute offered certain terminated vested participants of the Plan the option to elect to receive lump-sum payments subject to an election window. The provisions of ASC 958-715, *Not-for-Profit Entities: Compensation – Retirement Benefits*, require the Institute to recognize settlement charges based on the lump-sum benefits paid. The re-measurement of the Plan as of November 30, 2012, resulted in a one-time settlement charge that was recorded in net periodic pension cost for the year ended June 30, 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 statements of financial position as of June 30, 2014 and 2013 (in thousands):

	2014	2013
Change in benefit obligation		
Benefit obligation—beginning of year	$ 122,507	$ 145,992
Service cost	2,638	3,035
Interest cost	5,765	5,487
Actuarial loss (gain)	9,632	(10,242)
Benefits paid	(4,606)	(4,688)
Plan amendments		(17,077)
Projected benefit obligation—end of year	$ 135,936	$ 122,507
Change in plan assets		
Fair value of plan assets—beginning of year	$ 109,810	$ 81,447
Actual return on plan assets	16,986	10,128
Employer contribution	5,000	40,000
Benefits paid	(4,606)	(4,688)
Lump-sum benefits paid		(17,077)
Fair value of plan assets—end of year	$ 127,190	$ 109,810
Funded status at the end of the year	$ (8,746)	$ (12,697)

The pension plan items not yet recognized as a component of periodic pension expense, but included in net assets as of June 30, 2014 and 2013, are as follows (in thousands):

	2014	2013
Net actuarial loss	$ 37,007	$ 39,171
Prior-service cost	284	132
Net amount recognized	$ 37,291	$ 39,303

As of June 30, 2013, information for pension plans with an accumulated benefit obligation in excess of plan assets consist of the following (in thousands):

	2014	2013
Projected benefit obligation	$ 135,936	$ 122,507
Accumulated benefit obligation	123,597	111,579
Fair value of the plan assets	127,190	109,810

10. PENSION BENEFITS (continued)

As of June 30, 2014 and 2013, components of net periodic benefit cost for the pension plan consist of the following (in thousands):

	2014	2013
Service cost	$ 2,638	$ 3,035
Interest cost	5,765	5,487
Expected return on plan assets	(8,235)	(6,918)
Amortization of prior service credit	(153)	(153)
Amortization of net actuarial loss	3,045	5,237
One-time settlement charge		7,393
Net periodic benefit cost	$ 3,060	$ 14,081

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 2015 are $2.7 million and $40,000, respectively.

Assumptions - Weighted-average assumptions used to determine the pension benefit obligation as of June 30, 2014 and 2013, are as follows:

	2014	2013
Discount rate	4.30 %	4.70 %
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, 2014 and 2013, are as follows:

	2014	2013
Discount rate*	4.70 %	4.10 / 3.80 %
Expected return on plan assets	7.50	7.50
Salary growth rate	4.20	4.20

*4.10% discount rate used from July 1, 2012, to November 30, 2012, and 3.80% discount rate used from December 1, 2012, to June 30, 2013, due to re-measurement of the Plan.

Contributions - Employer contributions to the defined contribution plan totaled $3.4 million and $3.1 million, respectively, for the years ended June 30, 2014 and 2013. Employer contributions to the supplemental retirement plan totaled $185,000 and $161,000, respectively, for the years ended June 30, 2014 and 2013. The Institute expects to contribute $5.0 million to its defined benefit pension plan in fiscal year 2015.

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,	
2015	$ 5,279
2016	5,762
2017	6,171
2018	6,566
2019	6,908
2020-2024	38,576

10. PENSION BENEFITS (continued)

Plan Assets - Investment objectives and policies are approved by the Institute's Executive Committee based on recommendations by the Compensation and Benefits 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. The Institute 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, 2014 and 2013, by asset category, are as follows:

Asset Category:	2014	2013	Target Allocation
Equity securities	76 %	71 %	75 %
Fixed income securities and cash and cash equivalents	24	29	25
Total	100 %	100 %	100 %

The following presents information about the Institute's Plan assets measured at fair value as of June 30, 2014 and 2013, 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 that are not redeemable in the near term at net asset value or its equivalent.

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.

	2014			
Plan assets, at fair value	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,803	$	$	$ 1,803
Equity securities	51,486	42,668	2,855	97,009
Fixed income securities	14,204	14,174		28,378
Total plan assets, at fair value	$ 67,493	$ 56,842	$ 2,855	$ 127,190

	2013			
Plan assets, at fair value	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,846	$	$	$ 1,846
Equity securities	47,809	28,254	2,488	78,551
Fixed income securities	14,901	14,512		29,413
Total plan assets, at fair value	$ 64,556	$ 42,766	$ 2,488	$ 109,810

The change in Level 3 asset activity for the years ended June 30, 2014 and 2013, was $367,000 and $429,000 of unrealized gains, respectively.

11. NATURAL CLASSIFICATION OF EXPENSES

Expenses by natural classification for operating activities, for the year ended June 30, 2014, are as follows (in thousands):

	Museum	School	Corporate Financial Services	Total	% of Total
Salaries and wages	$ 31,128	$ 51,502	$	$ 82,630	36.4 %
Fringe benefits	10,745	14,906	(3,340)	22,311	9.9 %
Contracted services	13,085	11,679		24,764	10.9 %
Equipment, rental, and maintenance	2,643	10,641		13,284	5.9 %
Travel and entertainment	1,658	1,773		3,431	1.5 %
Telephone, copy, fax, and postage	1,799	1,223		3,022	1.3 %
Supplies, books, and subscriptions	2,862	1,766		4,628	2.0 %
Publications and printing	2,598	1,041		3,639	1.6 %
Publicity and promotions	2,830	976		3,806	1.7 %
Cost of sales	6,300	1,837		8,137	3.6 %
Utilities	3,778	2,433		6,211	2.7 %
Bad debt	13	764		777	0.3 %
Interest and debt issuance cost amortization	5,786	3,810	2,304	11,900	5.3 %
Depreciation	17,222	10,586		27,808	12.2 %
Other	6,370	4,303		10,673	4.7 %
Total	$ 108,817	$ 119,240	$ (1,036)	$ 227,021	100.0 %

The Institute's Corporate Financial Services activity represents internal bank activity that provides financing for various Museum and School initiatives and allocates certain other costs impacted by interest rate fluctuations.

Expenses by natural classification for operating activities, excluding loss on debt defeasance, for the year ended June 30, 2013, are as follows (in thousands):

	Museum	School	Corporate Financial Services	Total	% of Total
Salaries and wages	$ 28,738	$ 49,308	$	$ 78,046	34.2%
Fringe benefits	9,995	14,638	7,981	32,614	14.3%
Contracted services	13,319	11,957		25,276	11.1%
Equipment, rental, and maintenance	2,364	8,808		11,172	4.9%
Travel and entertainment	1,380	1,595		2,975	1.3%
Telephone, copy, fax, and postage	1,646	1,339		2,985	1.3%
Supplies, books, and subscriptions	2,676	1,675		4,351	1.9%
Publications and printing	3,115	1,087		4,202	1.8%
Publicity and promotions	1,909	1,085		2,994	1.3%
Cost of sales	6,071	1,822		7,893	3.5%
Utilities	3,129	1,805		4,934	2.2%
Bad debt	13	878		891	0.4%
Interest and debt issuance cost amortization	5,969	4,031	2,005	12,005	5.3%
Depreciation	17,827	9,896		27,723	12.2%
Other	6,755	3,148		9,903	4.3%
Total	$ 104,906	$ 113,072	$ 9,986	$ 227,964	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 or approve 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 may 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 Advisory Committees and the Board of Governors, 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 29, 2014, the date the financial statements were issued, and concluded that no subsequent events have occurred that would require recognition or that have not been disclosed elsewhere.

SUPPLEMENTARY INFORMATION

THE ART INSTITUTE OF CHICAGO

SUPPLEMENTAL SCHEDULE OF
UNRESTRICTED OPERATING ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(In thousands)

	Museum	School	Corporate Financial Services*	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$	$ 133,296	$	$ 133,296
Student aid		(35,074)		(35,074)
Tuition and student program fees, net		98,222		98,222
Contributions	17,836	3,565		21,401
Chicago Park District tax	5,614			5,614
Museum admissions	12,959			12,959
Membership dues	8,156			8,156
Special exhibitions, catalogues, and other revenues	1,097			1,097
Other program revenues	6,090	5,519		11,609
Investment return designated for current use	12,176	2,586	2,336	17,098
Auxiliary activities	16,962	10,461		27,423
Other	351	502		853
Net assets released from restrictions	31,292	8,296		39,588
Total operating revenue, gains, and other support	112,533	129,151	2,336	244,020
Expenses and losses:				
Programs services:				
Instructional and academic		82,461		82,461
Curatorial, libraries, and collections	33,440			33,440
Special exhibitions	6,985			6,985
Museum education	2,842			2,842
Other programs	6,965	1,657		8,622
Auxiliary activities	13,833	3,862		17,695
Managerial and general:				
General administration	14,957	13,815	(3,340)	25,432
Depreciation	17,222	10,586		27,808
Interest and debt issuance cost amortization	5,786	3,810	2,304	11,900
Member development	3,041			3,041
Fund raising	3,745	3,050		6,795
Total expenses and losses	108,816	119,241	(1,036)	227,021
Change in net assets from operations	**$ 3,717**	**$ 9,910**	**$ 3,372**	**$ 16,999**

*The Institute's Corporate Financial Services activity represents internal bank activity that provides financing for various Museum and School initiatives and allocates certain other costs impacted by interest rate fluctuations.

THE ART INSTITUTE OF CHICAGO

SUPPLEMENTAL SCHEDULE OF
UNRESTRICTED OPERATING ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(In thousands)

	Museum	School	Corporate Financial Services*	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$	$ 125,117	$	$ 125,117
Student aid		(33,281)		(33,281)
Tuition and student program fees, net		91,836		91,836
Contributions	16,828	3,800		20,628
Chicago Park District tax	5,576			5,576
Museum admissions	11,813			11,813
Membership dues	7,117			7,117
Special exhibitions, catalogues, and other revenues	553			553
Other program revenues	4,043	5,285		9,328
Investment return designated for current use	12,227	2,584	2,030	16,841
Auxiliary activities	17,287	9,761		27,048
Other	355	512		867
Net assets released from restrictions	31,272	7,243		38,515
Total operating revenue, gains, and other support	107,071	121,021	2,030	230,122
Expenses and losses:				
Programs services:				
Instructional and academic		81,374		81,374
Curatorial, libraries, and collections	34,622			34,622
Special exhibitions	5,332			5,332
Museum education	2,697			2,697
Other programs	6,119	1,719		7,838
Auxiliary activities	14,125	3,514		17,639
Managerial and general:				
General administration	10,154	9,839	7,981	27,974
Depreciation	17,827	9,896		27,723
Interest and debt issuance cost amortization	5,969	4,031	2,005	12,005
Member development	3,496			3,496
Fund raising	4,182	2,699		6,881
Total expenses and losses	104,523	113,072	9,986	227,581
Change in net assets from operations before debt defeasance	2,548	7,949	(7,956)	2,541
Loss on debt defeasance	(566)	(808)	(190)	(1,564)
Change in net assets from operations	**$ 1,982**	**$ 7,141**	**$ (8,146)**	**$ 977**

*The Institute's Corporate Financial Services activity represents internal bank activity that provides financing for various Museum and School initiatives and allocates certain other costs impacted by interest rate fluctuations.