The Art Institute of Chicago

Financial Statements as of and for the Years Ended June 30, 2017 and 2016, Supplementary Information for the Years Ended June 30, 2017 and 2016, and Independent Auditors' Report

THE ART INSTITUTE OF CHICAGO

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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 and for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, 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 Schedules

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules listed in the table of contents are presented for the purpose of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of the Institute's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedules 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 schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Deloitte & Touche LLP

October 3, 2017

THE ART INSTITUTE OF CHICAGO

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2017 AND 2016

(In thousands)

	2017	2016
Assets:		
Cash and cash equivalents	$ 4,172	$ 8,222
Accounts and investment income receivables	9,838	9,857
Contributions receivable	64,507	71,228
Inventories	4,324	4,481
Prepaid expenses and other assets	4,993	9,744
Investments	1,021,246	926,188
Property and equipment, net	456,943	459,845
Total assets	**$ 1,566,023**	**$ 1,489,565**
Liabilities and net assets:		
Liabilities:		
Accounts payable and other liabilities	$ 39,183	$ 35,113
Deferred revenues and other	18,716	20,100
Refundable advances	3,851	3,834
Pension liability	29,227	42,969
Bonds and notes payable	207,361	216,039
Total liabilities	**298,338**	**318,055**
Net assets:		
Unrestricted	195,485	155,718
Temporarily restricted	631,772	590,044
Permanently restricted	440,428	425,748
Total net assets	**1,267,685**	**1,171,510**
Total liabilities and net assets	**$ 1,566,023**	**$ 1,489,565**

See notes to financial statements.

THE ART INSTITUTE OF CHICAGO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(In thousands)

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 157,479	$ -	$ -	$ 157,479
Student aid	(42,410)			(42,410)
Tuition and student program fees, net	115,069			115,069
Contributions	19,000	13,993	14,257	47,250
Chicago Park District tax	5,644			5,644
Museum admissions	17,261			17,261
Membership dues	9,691			9,691
Other program revenues	8,700			8,700
Investment return designated for current use	17,541	27,457		44,998
Auxiliary activities	27,521			27,521
Other	849			849
Net assets released from restrictions	44,136	(44,136)		-
Total operating revenue, gains, and other support	265,412	(2,686)	14,257	276,983
Expenses and losses:				
Programs services:				
Instructional and academic	98,411			98,411
Curatorial, libraries, and collections	41,016			41,016
Special exhibitions	6,784			6,784
Museum education	3,990			3,990
Other programs	7,289			7,289
Auxiliary activities	18,007			18,007
Managerial and general:				
General administration	31,522			31,522
Depreciation	29,059			29,059
Interest and debt issuance cost amortization	8,730			8,730
Member development	2,990			2,990
Fund raising	10,190			10,190
Total expenses and losses	257,988	-	-	257,988
Change in net assets from operations before debt defeasance	7,424	(2,686)	14,257	18,995
Loss on debt defeasance	(6,369)			(6,369)
Change in net assets from operations	**1,055**	**(2,686)**	**14,257**	**12,626**
Nonoperating revenue, expenses, support, gains, and losses:				
Proceeds from the sale of art objects		4,898		4,898
Contributions for the purchase of art objects	1,115	2,795	104	4,014
Net assets released to fund acquisition of art objects	14,072	(14,072)		-
Investment return designated for art purchases	21	3,728		3,749
Acquisition of art objects	(15,510)			(15,510)
Pension-related changes other than net periodic pension cost	16,187			16,187
Investment return in excess of amounts designated for current operations and art purchases	22,754	47,168	308	70,230
Other nonoperating expense	(19)			(19)
Other transfers	92	(103)	11	-
Change in net assets	**39,767**	**41,728**	**14,680**	**96,175**
Net assets, beginning of year	155,718	590,044	425,748	1,171,510
Net assets, end of year	**$ 195,485**	**$ 631,772**	**$ 440,428**	**$ 1,267,685**

See notes to financial statements.

THE ART INSTITUTE OF CHICAGO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(In thousands)

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 149,577	$ -	$ -	$ 149,577
Student aid	(39,751)			(39,751)
Tuition and student program fees, net	109,826			109,826
Contributions	19,943	13,849	59,164	92,956
Chicago Park District tax	5,733			5,733
Museum admissions	20,007			20,007
Membership dues	8,827			8,827
Special exhibitions, catalogues, and other revenues	676			676
Other program revenues	9,133			9,133
Investment return designated for current use	16,613	25,974		42,587
Auxiliary activities	28,628			28,628
Other	656			656
Net assets released from restrictions	44,888	(44,888)		-
Total operating revenue, gains, and other support	264,930	(5,065)	59,164	319,029
Expenses and losses:				
Programs services:				
Instructional and academic	91,255			91,255
Curatorial, libraries, and collections	37,911			37,911
Special exhibitions	6,634			6,634
Museum education	3,558			3,558
Other programs	8,032			8,032
Auxiliary activities	18,918			18,918
Managerial and general:				
General administration	30,157			30,157
Depreciation	28,491			28,491
Interest and debt issuance cost amortization	10,189			10,189
Member development	3,434			3,434
Fund raising	9,009			9,009
Total expenses and losses	247,588	-	-	247,588
Change in net assets from operations	**17,342**	**(5,065)**	**59,164**	**71,441**
Nonoperating revenue, expenses, support, gains, and losses:				
Proceeds from the sale of art objects		3,871		3,871
Contributions for the purchase of art objects		2,169	19	2,188
Net assets released to fund acquisition of art objects	17,232	(17,232)		-
Investment return designated for art purchases		3,674		3,674
Acquisition of art objects	(17,559)			(17,559)
Pension-related changes other than net periodic pension cost	(16,865)			(16,865)
Investment return less than amounts designated for current operations and art purchases	(21,205)	(37,814)	(178)	(59,197)
Other transfers	(125)	(100)	225	-
Change in net assets	**(21,180)**	**(50,497)**	**59,230**	**(12,447)**
Net assets, beginning of year	176,898	640,541	366,518	1,183,957
Net assets, end of year	**$ 155,718**	**$ 590,044**	**$ 425,748**	**$ 1,171,510**

See notes to financial statements.

THE ART INSTITUTE OF CHICAGO

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(In thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 96,175	$ (12,447)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	28,327	28,085
Loss on debt defeasance	6,369	-
Loss on retirement of property	310	-
Change in pension liability	(13,742)	17,566
Contributions restricted for permanently restricted endowment, net	(10,460)	(63,486)
Contributions restricted for capital campaign, net	(142)	(1,039)
Other losses	42	82
Net unrealized and realized (gains) losses on investments	(114,615)	18,407
Acquisitions and sales of art, net	10,612	13,688
Change in assets and liabilities:		
Accounts and investment income receivables	19	(940)
Prepaid expenses, other assets, and inventories	1,633	1,271
Unrestricted and temporarily restricted contributions receivable	(2,938)	6,832
Accounts payable and other liabilities	3,925	(6,234)
Refundable advances	17	84
Deferred revenues and other	(1,384)	(290)
Net cash provided by operating activities	**4,148**	**1,579**
Cash flows from investing activities:		
Purchases of property and equipment	(28,217)	(18,797)
Proceeds from sales of art objects	4,898	3,871
Acquisition of art objects	(13,616)	(19,356)
Other assets restricted for debt service	1,689	(2,825)
Proceeds from sales of investments	62,163	75,708
Purchases of investments	(38,671)	(77,152)
Net cash used in investing activities	**(11,754)**	**(38,551)**
Cash flows from financing activities:		
Proceeds from contributions restricted for permanently restricted endowment	14,226	38,149
Proceeds from capital campaign	2,059	3,725
Purchase of securities in connection with defeasance of debt	(45,162)	-
Payments on notes payable	(19,175)	(13,695)
Proceeds from notes payable	51,608	-
Net cash provided by financing activities	**3,556**	**28,179**
Net decrease in cash and cash equivalents	**(4,050)**	**(8,793)**
Cash and cash equivalents at the beginning of year	8,222	17,015
Cash and cash equivalents at the end of year	**$ 4,172**	**$ 8,222**
Supplemental data: Interest paid	$ 9,485	$ 10,425
Supplemental disclosure of noncash items: Property and art purchase additions included in accounts payable	$ 7,565	$ 7,421

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.

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 ("US GAAP"). A summary of the Institute's significant accounting policies is set forth below:

Management estimates **-** The preparation of financial statements in conformity with US GAAP 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") or its designee, 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 or its designee, 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, and the holdings of the libraries, are excluded from the statements of financial position. Additions to the permanent collection are made either by gifts, bequests, or through purchases using Institute's acquisition funds. Institute's 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 last 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; they 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. Therefore, it is not included in the statements of financial position.

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 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.

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 US Treasury securities. Amortization of the discount is recorded as additional contributions.

Prepaid expenses and other assets **-** Prepaid expenses include expenditures for operating supplies, 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 bond indenture agreement. As of June 30, 2017 and 2016, the restricted pledge fund balance was $1.9 million and $3.5 million, respectively.

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

***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.

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 ("Investment Committee") is responsible for oversight of all investments and compliance with the investment policies, which are approved by the Investment Committee and the Executive Committee of the Board of Trustees ("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.

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 underfunded status of the plan is recognized as a liability in its statements 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* -** 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.

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

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.

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 non-operating 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 ("FASB") 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 $8.7 million for tax periods through June 30, 2016. The Institute does not have the ability to estimate the NOL through June 30, 2017, 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 2027 and 2036. The Institute has not recorded a tax benefit for these NOLs for the years ended June 30, 2017 and 2016, 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 - In April 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-03, *Interest - Imputation of Interest* which requires that deferred debt issuance costs be presented with debt liabilities, rather than reported as an asset in the statement of financial position. The Institute has adopted ASU No. 2015-03 effective in fiscal year 2017, and the impact was not material to the financial statements.

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

Upcoming accounting pronouncements not yet adopted - In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for US GAAP and International Financial Reporting Standards. ASU No. 2014-09 will become effective for the annual period ending after December 15, 2017. The Institute is currently evaluating the impact of adopting this standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* The guidance requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the statement of financial position for both operating and capital leases. The guidance will be effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Institute is currently evaluating the impact of adopting this standard.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* This standard simplifies and improves how a not-for-profit organization classifies its net assets as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The provisions of this standard are effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. The Institute is currently evaluating the impact of adopting this standard.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard requires reporting the service cost component of net periodic pension in operating expenses, while all other components of net periodic pension costs are reported as part of non-operating revenues and expenses. The provisions of this standard are effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Institute is currently evaluating the impact of adopting this standard.

Subsequent events - The Institute evaluated activity through October 3, 2017, the date the financial statements were issued, and concluded that no other subsequent events have occurred that would require recognition or that have not been disclosed elsewhere.

2. INVESTMENTS

Investments as of June 30, 2017 and 2016, consist of the following (in thousands):

	2017					
	Pooled		Non Pooled Investments		Total	
Cash and cash equivalents	$ 24,705	2.6 %	$ 928	1.7 %	$ 25,633	2.5 %
Fixed income securities	49,443	5.1	4,666	8.4	54,109	5.3
Equity securities	457,545	47.4	4,171	7.6	461,716	45.2
Hedge funds	276,391	28.6			276,391	27.1
Venture capital and private equity	94,245	9.8			94,245	9.2
Real assets	63,672	6.6			63,672	6.2
Total assets held for investment	966,001	100.0	9,765	17.7	975,766	95.5
Assets held in trust by others			45,480	82.3	45,480	4.5
Total investments	$ 966,001	100.0 %	$ 55,245	100.0 %	$1,021,246	100.0 %

	2016					
	Pooled		Non Pooled Investments		Total	
Cash and cash equivalents	$ 47,842	5.5 %	$ 2,119	4.1 %	$ 49,961	5.4 %
Fixed income securities	47,151	5.4	3,933	7.6	51,084	5.5
Equity securities	394,082	45.0	3,936	7.7	398,018	43.0
Hedge funds	229,071	26.2			229,071	24.7
Venture capital and private equity	95,804	11.0			95,804	10.3
Real assets	60,705	6.9			60,705	6.6
Total assets held for investment	874,655	100.0	9,988	19.4	884,643	95.5
Assets held in trust by others			41,545	80.6	41,545	4.5
Total investments	$ 874,655	100.0 %	$ 51,533	100.0 %	$ 926,188	100.0 %

Cash and cash equivalents included in long-term investments may consist of short-term US 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. 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.

2. INVESTMENTS (continued)

Investments include 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 include 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 the 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.

The changes in fair value of assets held for investment and assets held in trust by others as of June 30, 2017 and 2016, exclusive of accrued expenses of $116,000 and $245,000, respectively, are as follows (in thousands):

	For the Year Ended 2017			
	Assets Held for Investment		Assets Held	
Change in fair value:	Pooled	Non Pooled	in Trust	Total
Realized	$ 42,089	$ 255	$ -	$ 42,344
Unrealized	72,084	187		72,271
Dividend and interest income	5,356	154	2,039	7,549
Cash gifts and other additions	19,579	4	3,935	23,518
Transfers in (out)	2,099	(660)		1,439
Investment management fees	(3,305)	(11)		(3,316)
Allocation of spendable funds	(46,556)	(152)	(2,039)	(48,747)
Net change in fair value	91,346	(223)	3,935	95,058
Fair value, beginning of year	874,655	9,988	41,545	926,188
Fair value, end of year	$ 966,001	$ 9,765	$ 45,480	$ 1,021,246

	For the Year Ended 2016			
	Assets Held for Investment		Assets Held	
Change in fair value:	Pooled	Non Pooled	in Trust	Total
Realized	$ 28,987	$ 215	$ -	$ 29,202
Unrealized	(47,283)	(326)		(47,609)
Dividend and interest income	5,882	158	2,190	8,230
Cash gifts and other additions	38,432	3,725	(4,215)	37,942
Transfers in (out)	3,229	(3,410)		(181)
Investment management fees	(2,495)	(6)		(2,501)
Allocation of spendable funds	(43,917)	(154)	(2,190)	(46,261)
Net change in fair value	(17,165)	202	(4,215)	(21,178)
Fair value, beginning of year	891,820	9,786	45,760	947,366
Fair value, end of year	$ 874,655	$ 9,988	$ 41,545	$ 926,188

Realized and unrealized gains included in the statements of activities for the years ended June 30, 2017 and 2016, are reported in the financial statement as investment return designated for current use, investment return designated for art purchases, and investment return in excess of amounts designated for current operations and art purchases.

2. INVESTMENTS (continued)

The annualized rate of return is net of investment manager fees and is computed using monthly net returns of individual investment managers. The fair values (in thousands) and the rates of investment return on the pooled investments for the years ended June 30, 2017 and 2016, are summarized as follows:

	2017		2016	
	Fair Value	Rate of Return	Fair Value	Rate of Return
Pooled endowment funds investments	$ 966,001	13.7%	$ 874,655	-1.5%

ASC 820, *Fair Value Measurements and Disclosures*, 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 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 that 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 that are generally included in this category are corporate bonds and institutional commingled funds.

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.

In accordance with ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent)*, investments measured at the net asset value per share ("NAV") or equivalent are not categorized within the fair value hierarchy. 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 NAV, 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

2. INVESTMENTS (continued)

and considers the fund's audited financial statements when evaluating the overall reasonableness of the recorded value. Audited information is typically 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.

The Institute's investments are classified as follows, based on fair values, as of June 30, 2017 (in thousands):

	2017				
Pooled investments	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$	$ 24,705	$ -	$ -	$ 24,705
Fixed income securities		49,443			49,443
Equity securities	362,791	94,754			457,545
Hedge funds	276,391				276,391
Venture capital and private equity	94,245				94,245
Real assets	55,979	7,693			63,672
Total pooled investments	789,406	176,595	-	-	966,001
Non pooled investments					
Cash and cash equivalents		928			928
Fixed income securities		2,120	2,546		4,666
Equity securities		4,171			4,171
Assets held in trust by others		40,369	3,680	1,431	45,480
Total non pooled investments	-	47,588	6,226	1,431	55,245
Total investments	$ 789,406	$ 224,183	$ 6,226	$ 1,431	$ 1,021,246

The Institute's investments are classified as follows, based on fair values, as of June 30, 2016 (in thousands):

	2016				
Pooled investments	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ -	$ 47,842	$ -	$ -	$ 47,842
Fixed income securities		47,151			47,151
Equity securities	309,236	84,846			394,082
Hedge funds	229,071				229,071
Venture capital and private equity	95,804				95,804
Real assets	52,929	7,776			60,705
Total pooled investments	687,040	187,615		-	874,655
Non pooled investments					
Cash and cash equivalents		2,119			2,119
Fixed income securities		1,779	2,154		3,933
Equity securities		3,936			3,936
Assets held in trust by others		35,914	3,958	1,673	41,545
Total non pooled investments	-	43,748	6,112	1,673	51,533
Total investments	$ 687,040	$ 231,363	$ 6,112	$ 1,673	$ 926,188

2. INVESTMENTS (continued)

The unfunded commitments, redemption frequency, and redemption notice period of the pooled investments held at NAV or its equivalent are as follows as of June 30, 2017 and 2016 (in thousands):

	2017				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Lockup or Gate
Equity securities	$ 362,791	N/A	Daily-Quarterly	1-90 Days	None
Hedge funds	276,391	22,143	Monthly-Biennially	30-95 Days	One fund subject to a 2 year lockup
Venture capital and private equity	94,245	61,319	N/A	N/A	N/A
Real assets	55,979	38,568	Quarterly	45 Days	None
Total	$ 789,406	$ 122,030			

	2016				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Lockup or Gate
Equity securities	$ 309,236	N/A	Daily-Annually	1-90 Days	None
Hedge funds	229,071	N/A	Monthly-Biennially	30-120 Days	One fund subject to a 2 year lockup
Venture capital and private equity	95,804	70,459	N/A	N/A	N/A
Real assets	52,929	35,647	Quarterly	45 Days	None
Total	$ 687,040	$ 106,106			

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.

3. ENDOWMENT FUNDS (continued)

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. 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, 2017 and 2016, $356,000 and $2.0 million, respectively, of donor endowment deficits were reported in unrestricted net assets.

The Institute's endowment net asset composition (including pledges) as of June 30, 2017 and 2016, is as follows (in thousands):

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (356)	$ 276,794	$ 440,428	$ 716,866
Board-designated endowment funds	296,677	43,029		339,706
Total funds	$ 296,321	$ 319,823	$ 440,428	$ 1,056,572

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,983)	$ 232,496	$ 425,748	$ 656,261
Board-designated endowment funds	275,098	39,568		314,666
Total funds	$ 273,115	$ 272,064	$ 425,748	$ 970,927

3. ENDOWMENT FUNDS (continued)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) as of June 30, 2017 and 2016, are as follows (in thousands):

	2017	2016
Permanently restricted net assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	$ 440,428	$ 425,748
Temporarily restricted net assets		
Term endowment funds and purpose restricted endowment earnings	$ 168,125	$ 146,720
The portion of perpetual endowments subject to a time restriction under UPMIFA	151,698	125,344
Total endowment funds classified as temporarily restricted net assets	$ 319,823	$ 272,064

Changes in endowment net assets for the year ended June 30, 2017, are as follows (in thousands):

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 273,115	$ 272,064	$ 425,748	$ 970,927
Investment income	3,551	3,824		7,375
Net appreciation on pooled and non pooled investments	36,933	74,395	308	111,636
Net appreciation on assets held in trust			3,901	3,901
Contributions			10,460	10,460
Appropriation of endowment assets for expenditure	(17,562)	(31,185)		(48,747)
Transfers to create board-designated endowment funds	13,364	725		14,089
Transfers to remove board-designated endowment funds	(13,080)			(13,080)
Other changes, net			11	11
Endowment net assets, end of year	$ 296,321	$ 319,823	$ 440,428	$ 1,056,572

3. ENDOWMENT FUNDS (continued)

Changes in endowment net assets for the year ended June 30, 2016, are as follows (in thousands):

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 284,788	$ 310,850	$ 366,518	$ 962,156
Investment income	2,182	5,880		8,062
Net depreciation on pooled and non pooled investments	(8,209)	(13,158)	(178)	(21,545)
Net depreciation on assets held in trust			(4,221)	(4,221)
Contributions		72	63,486	63,558
Appropriation of endowment assets for expenditure	(16,613)	(29,648)		(46,261)
Transfers to create board-designated endowment funds	22,323			22,323
Transfers to remove board-designated endowment funds	(14,699)			(14,699)
Other changes, net	3,343	(1,932)	143	1,554
Endowment net assets, end of year	$ 273,115	$ 272,064	$ 425,748	$ 970,927

Relationship of Spending Policy to Investment Objectives

The Institute's Executive Committee considers, among other factors, the standard of prudence prescribed by UPMIFA in determining the method to be used to appropriate endowment funds for expenditure.

The Institute's spendable endowment payout formula is a controlled growth distribution formula. Effective July 1, 2015, the Executive Committee set the fiscal year 2016 spendable payout equal to $44.4 million. For fiscal year 2017 and years following, the spending is the prior year's endowment payout increased by the higher of the prior June 30th growth in the consumer price index (CPI-U) as published by U.S. Bureau of Labor Statistics or the Higher Education Price Index (HEPI) published by the Commonfund Institute.

Endowment spendable amounts are reassessed by the Executive Committees 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 2017 ranged from 1.2% to 2.4% and for fiscal year 2016 ranged from 0.4% to 1.6%. Contributions receivable are expected to be realized as follows (in thousands):

Collectible during the following periods:	2017	2016
Year one	$ 16,006	$ 15,134
Year two	23,995	26,249
Year three	6,851	8,567
Year four	16,523	6,294
Year five and thereafter	6,129	19,160
Gross contributions receivable	69,504	75,404
Fair value adjustment	(3,005)	(1,930)
Allowance for uncollectible contributions	(1,992)	(2,246)
Net contributions receivable	$ 64,507	$ 71,228

The Institute's unconditional promises to contribute are recorded at fair value and are classified as Level 2 within the fair value hierarchy, except that promises to give that are payable upon the death of the donor are classified as Level 3 due to uncertain timing. Level 2 contributions receivable were $32.7 million and $40.5 million for the fiscal years 2017 and 2016, respectively. Level 3 contributions receivable were $31.8 million and $30.8 million for the fiscal years 2017 and 2016, respectively. In determining the classification within the fair value hierarchy, the Institute considered historical and projected cash flow rates. The fair value calculations 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, 2017 and 2016, consist of the following (in thousands):

	2017	2016
Land	$ 35,057	$ 35,057
Buildings and improvements	668,555	654,662
Equipment, furniture, and fixtures	28,021	27,450
Total property and equipment	731,633	717,169
Construction in progress	16,564	9,519
Accumulated depreciation	(291,254)	(266,843)
Property and equipment, net	$ 456,943	$ 459,845

6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities as of June 30, 2017 and 2016, consist of the following (in thousands):

	2017	2016
Accounts payable	$ 20,514	$ 18,217
Art purchase liability	2,232	500
Asset retirement obligations	6,049	6,077
Accrued salaries and benefits	4,951	4,809
Accrued interest payable	2,793	3,245
Other liabilities	2,644	2,265
Total accounts payable and other liabilities	$ 39,183	$ 35,113

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 2025. Certain operating leases provide for renewal options for periods from 1 to 10 years. Total lease expenses were $5.8 million and $5.0 million for the years ended June 30, 2017 and 2016, respectively. Minimum future lease payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2017, are as follows (in thousands):

Years ending June 30,	
2018	$ 5,509
2019	5,273
2020	4,681
2021	4,575
2022	4,406
Thereafter	13,616
Total minimum lease payments	$ 38,060

On August 7, 2017, the Institute entered into an amendment to one of its lease agreements for student housing. The lease amendment added additional space to the lease, increasing the obligation by $2.4 million, which is not included in the table above.

8. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2017 and 2016, consist of the following (in thousands):

	Principal 2017	Principal 2016	Final Maturity or Expiration	Principal Payable	Coupon Interest Rates at June 30
Bonds:					
Medium/long-term bonds tax exempt:					
Adjustable interest rate medium-term revenue bonds:					
Series 1998A[1,5]	$ -	$ 12,130	3/1/2030	Paid in full in March 2017	4.13% to 5.00%
Adjustable interest rate demand revenue bonds:					
Series 2000A[1,6]	6,000	6,000	3/1/2034	At maturity, subject to mandatory tender in 2018	5.25%
Fixed interest rate revenue bonds:					
Series 2009A[1]	20,000	20,000	3/1/2019	At maturity	5.25%
Series 2009A[1]		40,000	3/1/2038	At maturity	6.00%
Series 2010A[1]	45,170	45,170	3/1/2040	At maturity	5.25%
Series 2012A[1]	33,940	34,985	3/1/2034	Varying dates and amounts	3.00% to 5.00%
Series 2016[1]	37,250		3/1/2038	Varying dates and amounts	3.13% to 5.00%
Taxable bonds:					
Series 2012[1]	30,000	30,000	3/1/2027	Varying dates and amounts	2.48% to 3.78%
Total bonds	172,360	188,285			
Bank debt:					
Wells Fargo					
$24 million term loan[2]	24,000	24,000	10/24/2019	At expiration	1.94%
Bank of America $10 million working capital line of credit[3,4]	2,800		4/30/2018	At expiration	LIBOR or bank reference rate based
JPMorgan Chase $25 million working capital line of credit[3,4]			5/30/2019	At expiration	LIBOR or bank reference rate based
Northern Trust $20 million working capital line of credit[3,4]			1/24/2018	At expiration	LIBOR or bank reference rate based
Total outstanding debt	199,160	212,285			
Unamortized premium, discount, and cost of issuance	8,201	3,754			
Total	$ 207,361	$ 216,039			

Interest Payment Dates

(1) Interest is payable on March 1 and September 1.
(2) Interest is payable quarterly.
(3) Interest is payable on varying dates.

Interest Reset Period

(4) Interest rate resets on varying dates.
(5) Interest rate reset period is 2-3 years.
(6) Interest rate reset period is 5 years.

8. BONDS AND NOTES PAYABLE (continued)

In August 2016, the Institute issued $37.3 million aggregate principal amount of the Art Institute of Chicago Series 2016 Revenue Bonds. The proceeds of these bonds were used to refinance a portion of the Art Institute of Chicago Series 2009A Revenue Bonds. The Institute elected to make prepayments on that bond issue in order to provide for the legal defeasance of a total of $40 million of principal payments with a future maturity date of March 1, 2038. The Institute deposited cash with the bond trustee in an irrevocable escrow deposit trust fund for the purpose of purchasing defeasance obligations. The Institute recorded a loss on debt defeasance of $6.4 million for the year ended June 30, 2017, as a result of the simultaneous retirement of existing debt and the issuance of new debt at a lower interest rate.

In May 2017, the JPMorgan Chase line of credit agreement was extended to May 30, 2019.

The fair value of bonds payable as of June 30, 2017 and 2016, is $182.7 million and $207.7 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 and notes payable are summarized as follows (in thousands):

2018	$ 3,930
2019	31,125
2020	25,220
2021	1,325
2022	11,280
2023 and thereafter	126,280
Total	$ 199,160

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, 2017 and 2016. 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, 2017 and 2016 (in thousands):

	2017	2016
Restricted contributions received for acquisition or improvement of long-lived assets	$ 234,681	$ 237,380
Contributions receivable for acquisition or improvement of long-lived assets funded wholly or partially by debt	12,974	15,099
Portion of perpetual endowments subject to a timing restriction under UPMIFA consistent with state law, these funds are available upon appropriation by the Board	151,697	125,344
Other temporarily restricted net assets available for debt obligations	18,259	18,800
Total temporarily restricted net assets available for debt obligations	$ 417,611	$ 396,623

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

9. RESTRICTIONS ON NET ASSETS

The nature of restrictions on net assets released from donor restrictions and balances of temporarily and permanently restricted net assets by donor restriction for the years ended June 30, 2017 and 2016, are summarized as follows (in thousands):

	Released from Restriction		Temporarily Restricted Net Asset Balances		Permanently Restricted Net Asset Balances	
	2017	2016	2017	2016	2017	2016
Purchase of art objects	$ 14,072	$ 17,232	$ 54,931	$ 47,132	$ 60,889	$ 60,656
Purchase of books	218	214	3,140	2,767	2,144	2,144
Student aid	4,691	3,321	44,263	38,478	39,159	35,193
Museum exhibitions	4,224	5,232	14,874	9,911	26,408	26,333
Museum publications	348	195	5,936	5,360	3,610	3,510
Gallery maintenance, professorships, and curatorships	8,943	8,857	66,966	53,571	130,664	123,780
Acquisitions or improvements of long-lived assets	10,359	9,608	235,053	241,060		
Education, instruction, and other departmental purposes	15,353	17,461	126,422	111,888	68,778	65,494
Contribution receivable			24,866	30,485	36,731	40,498
Assets held in trust by others			440	407	45,038	41,137
General purpose			54,881	48,985	27,007	27,003
Total	$ 58,208	$ 62,120	$631,772	$590,044	$440,428	$425,748

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 Plan. A supplemental retirement plan is provided for certain employees whose benefits are restricted under the qualified plans.

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, 2017 and 2016 (in thousands):

	2017	2016
Change in benefit obligation		
Benefit obligation—beginning of year	$ 170,305	$ 155,732
Service cost	3,068	2,899
Interest cost	6,514	6,894
Actuarial (gain) loss	(5,045)	15,588
Benefits paid	(6,441)	(10,808)
Projected benefit obligation—end of year	168,401	170,305
Change in plan assets		
Fair value of plan assets—beginning of year	127,336	130,329
Actual return on plan assets	10,779	2,815
Employer contribution	7,500	5,000
Benefits paid	(6,441)	(10,808)
Fair value of plan assets—end of year	139,174	127,336
Funded status at the end of the year	$ (29,227)	$ (42,969)

The pension plan items not yet recognized as a component of periodic pension cost, but included in net assets as of June 30, 2017 and 2016, are as follows (in thousands):

	2017	2016
Net actuarial loss	$ 55,329	$ 71,130
Prior-service cost	2,427	2,813
Net amount recognized	$ 57,756	$ 73,943

The accumulated benefit obligation as of June 30, 2017 and 2016, was $151.0 million and $151.3 million, respectively.

10. PENSION BENEFITS (continued)

As of June 30, 2017 and 2016, components of net periodic benefit cost for the Plan consist of the following (in thousands):

	2017	2016
Service cost	$ 3,068	$ 2,899
Interest cost	6,514	6,894
Expected return on plan assets	(6,444)	(8,949)
Amortization of prior service credit	385	385
Amortization of net actuarial loss	6,422	4,471
Net periodic benefit cost	$ 9,945	$ 5,700

The estimated net actuarial loss and prior-service credit for the Plan that will be amortized and recognized in net periodic benefit cost for fiscal year 2018 are $4.6 million and $385,000, respectively.

Assumptions **-** Weighted-average assumptions used to determine the pension benefit obligation as of June 30, 2017 and 2016, are as follows:

	2017	2016
Discount rate	4.00 %	3.90 %
Salary growth rate	3.75	3.75

Weighted-average assumptions used to determine pension net periodic cost for the years ended June 30, 2017 and 2016, are as follows:

	2017	2016
Discount rate	3.90 %	4.50 %
Expected return on plan assets	5.20	7.00
Salary growth rate	3.75	3.75

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

Years Ending June 30,	
2018	$ 10,526
2019	10,201
2020	10,714
2021	10,908
2022	11,177
2023-2027	56,708

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.

10. PENSION BENEFITS (continued)

Plan assets are segregated into two separate investment pools, the retiree portion and the active portion. The assets of the retiree portion of the Plan are invested in a liability-driven investment strategy designed to match the duration and expected cash flows of the benefit distributions for retired Plan participants. The assets of the active portion of the Plan are invested to cover the future obligations due to active and terminated vested Plan participants. The active portion of the Plan is invested in a mix of return seeking and liability hedging assets.

The asset allocation of the active portion of the Plan was as follows as of June 30, 2017 and 2016:

Asset category:	2017	2016	Target Allocation
Equity securities	77 %	72 %	75 %
Fixed income securities and cash and cash equivalents	23	28	25
Total	100 %	100 %	100 %

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 NAV, as determined by the administrator, based on readily determinable market values (in thousands). In accordance with ASU No. 2015-07, investments measured at the NAV or equivalents are not categorized within the fair value hierarchy.

The Plan's investments are classified as follows, based on fair values, as of June 30, 2017 (in thousands):

		2017			
Plan assets, at fair value:	Investments Measured at NAV or equivalent	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,748	-	-	-	$ 1,748
Equity securities	34,262	30,555	-	-	64,817
Fixed income securities	62,920	9,689	-	-	72,609
Total plan assets, at fair value	$ 98,930	$ 40,244	$	$	$ 139,174

The Plan's investments are classified as follows, based on fair values, as of June 30, 2016 (in thousands):

		2016			
Plan assets, at fair value:	Investments Measured at NAV or equivalent	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ -	$ 4,121	$ -	$ -	$ 4,121
Equity securities	30,704	21,718			52,422
Fixed income securities	62,878	7,915			70,793
Total plan assets, at fair value	$ 93,582	$ 33,754	$ -	$ -	$ 127,336

***Employer contributions to retirement plans*-** The Institute expects to contribute $5.0 million to its defined benefit pension plan in fiscal year 2018. Employer contributions to the defined contribution plans totaled $5.0 million and $4.4 million, respectively, for the years ended June 30, 2017 and 2016. Employer contributions to the supplemental retirement plan totaled $316,000 and $232,000, respectively, for the years ended June 30, 2017 and 2016.

11. NATURAL CLASSIFICATION OF EXPENSES

Expenses by natural classification for operating activities for the year ended June 30, 2017, are as follows (in thousands):

	Museum	School	Corporate Financial Services	Total	% of Total
Salaries and wages	$ 35,806	$ 63,298	$ -	$ 99,104	38.4 %
Fringe benefits	10,293	17,010	8,245	35,548	13.8 %
Contracted services	15,244	12,279	-	27,523	10.7 %
Equipment, rental, and maintenance	3,648	12,380	-	16,028	6.2 %
Travel and entertainment	1,821	2,133	-	3,954	1.5 %
Telephone, copy, fax, and postage	1,781	1,675	-	3,456	1.3 %
Supplies, books, and subscriptions	2,327	1,923	-	4,250	1.6 %
Publications and printing	2,746	1,110	-	3,856	1.5 %
Publicity and promotions	1,552	1,142	-	2,694	1.0 %
Cost of sales	5,460	344	-	5,804	2.2 %
Utilities	3,277	2,188	-	5,465	2.1 %
Bad debt	1	751	-	752	0.3 %
Interest and debt issuance cost amortization	2,793	2,973	2,964	8,730	3.4 %
Depreciation	17,143	11,916	-	29,059	11.3 %
Other	6,905	4,860	-	11,765	4.7 %
Total	$ 110,797	$ 135,982	$ 11,209	$ 257,988	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 affected by interest rate fluctuations.

Expenses by natural classification for operating activities for the year ended June 30, 2016, are as follows (in thousands):

	Museum	School	Corporate Financial Services	Total	% of Total
Salaries and wages	$ 35,446	$ 59,130	$ -	$ 94,576	38.1 %
Fringe benefits	9,132	14,233	4,000	27,365	11.0 %
Contracted services	15,820	12,060		27,880	11.3 %
Equipment, rental, and maintenance	2,803	11,636		14,439	5.8 %
Travel and entertainment	1,790	2,231		4,021	1.6 %
Telephone, copy, fax, and postage	1,728	1,651		3,379	1.4 %
Supplies, books, and subscriptions	2,588	1,885		4,473	1.8 %
Publications and printing	2,730	1,234		3,964	1.6 %
Publicity and promotions	1,939	1,170		3,109	1.3 %
Cost of sales	6,987	359		7,346	3.0 %
Utilities	3,011	1,865		4,876	2.0 %
Bad debt	2	873		875	0.4 %
Interest and debt issuance cost amortization	3,417	3,650	3,122	10,189	4.1 %
Depreciation	17,234	11,257		28,491	11.5 %
Other	7,462	5,143		12,605	5.1 %
Total	$ 112,089	$ 128,377	$ 7,122	$ 247,588	100.0 %

SUPPLEMENTARY SCHEDULES

THE ART INSTITUTE OF CHICAGO

SUPPLEMENTAL SCHEDULE OF
UNRESTRICTED OPERATING ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(In thousands)

	Museum	School	Corporate Financial Services*	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$	$ 157,479	$	$ 157,479
Student aid		(42,410)		(42,410)
Tuition and student program fees, net		115,069		115,069
Contributions	13,960	2,013		15,973
Chicago Park District tax	5,644			5,644
Museum admissions	17,261			17,261
Membership dues	9,691			9,691
Special exhibitions, catalogues, and other revenues	302			302
Other program revenues	3,627	5,073		8,700
Investment return designated for current use	11,497	2,811	3,233	17,541
Auxiliary activities	15,634	11,887		27,521
Other	135	412		547
Net assets released from restrictions	34,057	10,079		44,136
Total operating revenue, gains, and other support	111,808	147,344	3,233	262,385
Expenses and losses:				
Programs services:				
Instructional and academic		98,411		98,411
Curatorial, libraries, and collections	41,016			41,016
Special exhibitions	6,784			6,784
Museum education	3,990			3,990
Other programs	5,269	2,020		7,289
Auxiliary activities	13,261	4,746		18,007
Managerial and general:				
General administration	10,399	12,878	8,245	31,522
Depreciation	17,143	11,916		29,059
Interest and debt issuance cost amortization	2,793	2,973	2,964	8,730
Member development	2,990			2,990
Fund raising	7,152	3,038		10,190
Total expenses and losses	110,797	135,982	11,209	257,988
Change in net assets from operations before transfers to quasi-endowment	1,011	11,362	(7,976)	4,397
Transfers to quasi-endowment**	2,583	444		3,027
Loss on debt defeasance			(6,369)	(6,369)
Change in net assets from operations	**$ 3,594**	**$ 11,806**	**$ (14,345)**	**$ 1,055**

*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.

**These amounts represent unrestricted bequests, which were received and transferred for long-term investment as quasi-endowment funds.

THE ART INSTITUTE OF CHICAGO

SUPPLEMENTAL SCHEDULE OF
UNRESTRICTED OPERATING ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(In thousands)

	Museum	School	Corporate Financial Services*	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ -	$ 149,577	$ -	$ 149,577
Student aid		(39,751)		(39,751)
Tuition and student program fees, net	-	109,826	-	109,826
Contributions	13,116	2,231		15,347
Chicago Park District tax	5,733			5,733
Museum admissions	20,007			20,007
Membership dues	8,827			8,827
Special exhibitions, catalogues, and other revenues	676			676
Other program revenues	3,794	5,339		9,133
Investment return designated for current use	10,519	3,325	2,769	16,613
Auxiliary activities	17,188	11,440		28,628
Other	215	441		656
Net assets released from restrictions	35,076	9,374		44,450
Total operating revenue, gains, and other support	115,151	141,976	2,769	259,896
Expenses and losses:				
Programs services:				
Instructional and academic		91,255		91,255
Curatorial, libraries, and collections	37,911			37,911
Special exhibitions	6,634			6,634
Museum education	3,558			3,558
Other programs	6,197	1,835		8,032
Auxiliary activities	15,215	3,703		18,918
Managerial and general:				
General administration	12,858	13,299	4,000	30,157
Depreciation	17,235	11,256		28,491
Interest and debt issuance cost amortization	3,416	3,651	3,122	10,189
Member development	3,434			3,434
Fund raising	5,631	3,378		9,009
Total expenses and losses	112,089	128,377	7,122	247,588
Change in net assets from operations before transfers to quasi-endowment	3,062	13,599	(4,353)	12,308
Transfers to quasi-endowment**	4,271	763		5,034
Change in net assets from operations	**$ 7,333**	**$ 14,362**	**$ (4,353)**	**$ 17,342**

*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.

**These amounts represent unrestricted bequests, which were received and transferred for long-term investment as quasi-endowment funds.