The Art Institute of Chicago

Consolidated Financial Statements as of and for the Years Ended June 30, 2007 and 2006, and Independent Auditors' Report

THE ART INSTITUTE OF CHICAGO

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Deloitte.

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA

Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated statements of financial position of The Art Institute of Chicago (the "Institute") as of June 30, 2007 and 2006, and the related consolidated statements of activities and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Institute as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated September 28, 2007, on our consideration of the Institute's internal control over financial reporting. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standard*s and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 1 to the consolidated financial statements, effective June 30, 2007, the Institute adopted Financial Accounting Standards Board ("FASB") Interpretation No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106 and 132(R)*, and as such changed its method of accounting for defined benefit pension and postretirement plans and recorded a cumulative effect for this change to reduce net assets by $8.0 million. Additionally, as of and for the year ended June 30, 2006 the Institute adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – An Interpretation of FASB Statement No. 143*, and recorded a cumulative effect for this change to reduce net assets by $4.9 million.

Deloitte & Touche LLP

September 28, 2007

THE ART INSTITUTE OF CHICAGO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2007 AND 2006
(In thousands)

	2007	2006
Assets:		
Cash and cash equivalents	$ 4,289	$ 4,530
Accounts and investment income receivable	8,707	8,517
Contributions receivable	41,551	27,135
Inventories	5,817	3,970
Prepaid expenses and other assets	5,778	4,027
Building sale receivable	10,731	10,033
Investments	889,063	810,626
Property and equipment, net	322,956	257,129
Total assets	**$ 1,288,892**	**$ 1,125,967**
Liabilities and net assets:		
Liabilities:		
Accrued interest payable	$ 1,965	$ 1,994
Accounts payable and other liabilities	50,863	27,735
Deferred revenues	22,249	20,570
Refundable advances	14,903	14,341
Pension liability	11,913	2,452
Notes payable	198,447	208,258
Total liabilities	**300,340**	**275,350**
Net assets:		
Unrestricted	303,175	228,470
Temporarily restricted	415,529	368,472
Permanently restricted	269,848	253,675
Total net assets	**988,552**	**850,617**
Total liabilities and net assets	**$ 1,288,892**	**$ 1,125,967**

See notes to consolidated financial statements.

THE ART INSTITUTE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007
(In thousands)

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 84,820	$	$	$ 84,820
Student aid	(21,068)			(21,068)
Tuition and student program fees, net	63,752	-	-	63,752
Contributions	14,545	42,722	13,373	70,640
Chicago Park District tax	6,790			6,790
Museum admissions	6,349			6,349
Membership dues	4,356			4,356
Special exhibitions, catalogues, and other revenues	172			172
Other program revenues	7,553			7,553
Investment return designated for current use	22,529	7,015	108	29,652
Auxiliary activities	23,192			23,192
Other	3,361			3,361
Net assets released from restrictions	14,851	(14,851)		-
Total operating revenue, gains, and other support	167,450	34,886	13,481	215,817
Expenses and losses:				
Programs services:				
Curatorial, libraries, and collections	27,082			27,082
Special exhibitions	3,152			3,152
Museum education	3,234			3,234
Other programs	5,719			5,719
Instructional and academic	52,324			52,324
Auxiliary activities	15,630			15,630
Managerial and general:				
General administration	21,592			21,592
Depreciation	13,093			13,093
Interest and debt issuance cost	8,277			8,277
Member development	1,548			1,548
Fund raising	6,654			6,654
Total expenses and losses	158,305	-	-	158,305
Change in net assets from operations before property sale	9,145	34,886	13,481	57,512
Gain on property sale	588			588
Change in net assets from operations	**9,733**	**34,886**	**13,481**	**58,100**
Nonoperating revenue, expenses, support, gains and losses:				
Proceeds from the sale of art objects		5,745		5,745
Contributions for the purchase of art objects		2,663	533	3,196
Net assets released to fund acquisition of art objects	19,391	(19,391)		-
Investment return designated for art purchases	547	4,231	43	4,821
Acquisition of art objects	(19,858)			(19,858)
Adjustment to reflect minimum pension liability	(1,483)			(1,483)
Investment return in excess of amounts designated for current operations	65,398	29,689	313	95,400
Other transfers	8,963	(10,766)	1,803	-
Change in net assets before effect of adoption of SFAS No. 158	**82,691**	**47,057**	**16,173**	**145,921**
Cumulative effect of adoption of SFAS No. 158	(7,986)			(7,986)
Change in net assets	**74,705**	**47,057**	**16,173**	**137,935**
Net assets, beginning of year	228,470	368,472	253,675	850,617
Net assets, end of year	**$ 303,175**	**$ 415,529**	**$ 269,848**	**$ 988,552**

See notes to consolidated financial statements.

THE ART INSTITUTE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006
(In thousands)

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 73,692	$	$	$ 73,692
Student aid	(17,159)			(17,159)
Tuition and student program fees, net	56,533	-	-	56,533
Contributions	13,738	43,767	26,378	83,883
Chicago Park District tax	6,924			6,924
Museum admissions	6,875			6,875
Membership dues	5,090			5,090
Special exhibitions, catalogues, and other revenues	554			554
Other program revenues	7,912			7,912
Investment return designated for current use	18,297	9,157	94	27,548
Auxiliary activities	22,955			22,955
Other	2,039			2,039
Net assets released from restrictions	16,011	(16,011)		-
Total operating revenue, gains, and other support	156,928	36,913	26,472	220,313
Expenses and losses:				
Programs services:				
Curatorial, libraries, and collections	24,790			24,790
Special exhibitions	4,061			4,061
Museum education	3,136			3,136
Other programs	5,464			5,464
Instructional and academic	47,463			47,463
Auxiliary activities	16,492			16,492
Managerial and general:				
General administration	18,951			18,951
Depreciation	12,388			12,388
Interest and debt issuance cost	8,582			8,582
Member development	1,249			1,249
Fund raising	6,157			6,157
Total expenses and losses	148,733	-	-	148,733
Change in net assets from operations before building sales and interest rate swap	8,195	36,913	26,472	71,580
Loss on building sales	(210)			(210)
Gain on interest rate swap	89			89
Change in net assets from operations	**8,074**	**36,913**	**26,472**	**71,459**
Nonoperating revenue, expenses, support, gains and losses:				
Proceeds from the sale of art objects		6,132		6,132
Contributions for the purchase of art objects		1,462	30	1,492
Net assets released to fund acquisition of art objects	14,284	(14,284)		-
Investment return designated for art purchases	206	4,032	38	4,276
Acquisition of art objects	(14,458)			(14,458)
Adjustment to reflect minimum pension liability	13,264			13,264
Investment return in excess of amounts designated for current operations	32,026	15,356	140	47,522
Other transfers	355	1,656	(2,011)	-
Change in net assets before accounting change and reporting entity	**53,751**	**51,267**	**24,669**	**129,687**
Cumulative effect of adoption of FIN 47	(4,933)			(4,933)
Cumulative effect of change in reporting entity	2,009	1,243		3,252
Change in net assets	**50,827**	**52,510**	**24,669**	**128,006**
Net assets, beginning of year	177,643	315,962	229,006	722,611
Net assets, end of year	**$ 228,470**	**$ 368,472**	**$ 253,675**	**$ 850,617**

See notes to consolidated financial statements.

THE ART INSTITUTE OF CHICAGO

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 and 2006
(In thousands)

	2007	2006
Cash flows from operating activities:		
Change in net assets	$ 137,935	$ 128,006
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	13,178	12,470
Retirement of property	105	43
(Gain) loss on sales of property	(588)	210
Adjustments to reflect minimum pension liability	1,483	(13,264)
Cumulative effect of adoption of SFAS No. 158	7,986	
Cumulative effect of adoption of FIN 47		4,933
Cumulative effect of change in reporting entity		(3,252)
Contributions restricted for permanently restricted endowment, net	(13,682)	(27,817)
Contributions restricted for capital campaign, net	(37,920)	(49,985)
Net unrealized and realized gains losses on investments	(115,642)	(60,342)
Acquisitions and sales of art, net	14,113	8,325
Change in assets and liabilities:		
Accounts and investment income receivable	(190)	781
Prepaid expenses, other assets, and inventories	(3,598)	1,827
Unrestricted and temporarily restricted contributions receivable	(4,864)	622
Accrued interest payable	(29)	(161)
Accounts payable and other liabilities	13,109	(8,338)
Refundable advances	562	11,352
Deferred revenues	449	1,661
Net cash provided by operating activities	**12,407**	**7,071**
Cash flows from investing activities:		
Purchases of property and equipment	(70,055)	(36,880)
Proceeds from sales of property	1,935	19,279
Proceeds from sales of art objects	5,745	6,133
Acquisition of art objects	(19,858)	(14,458)
Proceeds from sales of investments	197,277	225,705
Purchases of investments	(154,972)	(253,756)
Net cash used in investing activities	**(39,928)**	**(53,977)**
Cash flows from financing activities:		
Proceeds from contributions restricted for permanently restricted endowment	11,224	20,495
Decrease in assets restricted for debt service		3
Proceeds from capital campaign	25,726	52,976
Payments on notes payable	(13,570)	(32,500)
Proceeds from notes payable	3,900	6,100
Net cash provided by financing activities	**27,280**	**47,074**
Net increase (decrease) in cash and cash equivalents	**(241)**	**168**
Cash and cash equivalents at the beginning of year	4,530	4,129
Cash and cash equivalents from cumulative effect of change in reporting entity		233
Cash and cash equivalents at end of year	**$ 4,289**	**$ 4,530**
Supplemental data: Interest paid (net of capitalized interest of $0 and $29) in 2007 and 2006, respectively	$ 7,961	$ 8,350
Supplemental disclosure of noncash items: Property additions included in accounts payable	$ 16,905	$ 7,491

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The accompanying consolidated financial statements include the accounts of AIC and Ox-Bow, known collectively as the "Institute". Ox-Bow is a separate 501(c)(3) not-for-profit organization that conducts a school of the arts. The consolidating financial statements are shown in Note 12.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with the principles of not-for-profit accounting. A summary of the Institute's significant accounting policies is set forth below:

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

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

Unrestricted net assets include all resources that are not subject to donor-imposed restrictions of a more specific nature than those, which 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, as well as donor changes in the nature of restrictions on net assets, are reported as net assets released from restrictions. By action of the Board, certain temporarily restricted assets have been designated for investment.

Permanently restricted net assets are those that are subject to donor-imposed restrictions that will never lapse, thus requiring the assets to be maintained permanently as endowment funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Art Objects and Library Collections - The value of the art objects in the permanent collection, as well as the holdings of the libraries, is excluded from the statements of financial position. An addition of a work of art to the permanent collection is made either by a donation from a benefactor or through a purchase from 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 donated funds designated by the Board to be used for acquisitions.

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

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

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

Contributions Receivable - The receipt of unconditional promises to give with payments due in future periods is reported as temporarily or permanently restricted support unless explicit donor stipulations or circumstances surrounding the receipt of the promise make clear that the donor intended it to be used to support activities of the current period. Unconditional promises to give are reported at the present value of estimated future cash flows, net of the allowance for uncollectible pledges, using a discount rate that approximates the rate of government securities. Amortization of the discount is recorded as additional contribution revenue. Receipts of conditional gifts are recorded as refundable advances.

Inventories - Inventories are stated generally at the lower of average cost based upon the moving average cost method or market.

Prepaid Expenses - Prepaid expenses include expenditures for operating supplies, lease commissions, lease buildout, and expenditures made in connection with the development of future exhibitions. These expenditures typically relate to research, organizational travel, insurance, and transport costs of the works to be included in the exhibitions and the development of exhibition catalogues.

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. Additions and improvements made to the Grant Park facility since 1984 are capitalized at cost, net of related depreciation. Records are not available to permit the capitalization of such costs incurred prior to 1984.

The Institute owns fourteen 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 being depreciated using the straight-line method over the estimated useful lives of the assets. Buildings constructed on Grant Park property have a useful life of 50 years, whereas the purchase and the initial 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 20 years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Investments in equity and debt securities are carried at fair value based upon quoted market prices. Certain investments, for which quoted market prices are not available, are carried at cost and approximate $498,000 and $2.5 million at June 30, 2007 and 2006, respectively. Alternative structures and other investments include marketable and nonmarketable funds. Other investments include real estate, commodities, and other inflation hedge assets. Capital committed to alternative structures and other investments but not yet called, totaled $99.3 million and $50.5 million at June 30, 2007 and 2006, respectively. Included in investments are funds held in trust by others, the income from which is paid in whole or in part to the Institute, and split-interest gifts, the principal of which will be turned over to the Institute at some future date.

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

Pension and Other Postretirement Plans - In September 2006, the FASB issued Statement of Financial Accounting Standards SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. This statement requires institutions who sponsor one or more single employer defined benefit plans to recognize the overfunded or underfunded status of the defined benefit postretirement plans as an asset or liability in its statement of financial position. Under SFAS No. 158 not-for-profits are required to recognize changes in funded status through unrestricted assets in the year in which the changes occur. Additionally, this statement requires an entity to disclose in its notes to the financial statements additional information about certain effects on net periodic benefit cost for the subsequent fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition assets or obligations. The Institute adopted SFAS No. 158 as of June 30, 2007 resulting in a cumulative effect charge to net unrestricted assets of $8.0 million.

Also, SFAS No. 158 requires institutions to measure plan assets and benefit obligations as of the date of the institution's fiscal year-end effective for fiscal years ending after December 15, 2008. The Institute is already in compliance with this provision of the standard.

Deferred Revenues - Membership dues received are recognized ratably as revenue over the membership period, summer tuition from students and residential revenues are recognized ratably as revenue over the term. Gain on sale of property is recognized at such time when substantially all uncertainties about the construction of the developed property are resolved.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Member Development Activities - Member development activities include identifying and offering memberships to prospective members, member relations, and member communications. The imputed value of membership benefits provided to upper level and Sustaining Fellow members approximate $926,000 in 2007 and $860,000 in 2006. 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.

Endowment Funds - The Institute established the endowment funds for the purpose of investing assets in a manner that preserves the real value of the endowment principal and, in addition, provides spendable funds that can be used to fulfill the purposes for which the endowments were established. All permanently restricted net assets, as well as a significant portion of the Institute's unrestricted net assets and temporarily restricted net assets, are classified as endowment funds. Additions to the endowment funds primarily originate from permanently restricted gifts or actions taken by the Board to designate funds as endowment, as well as unrestricted bequests and unspent returns on endowment funds investments that are added to the endowment funds net assets either at the direction of the donor or as a matter of policy. Net realized and unrealized appreciation on endowment funds is classified in the financial statements as part of either unrestricted, temporarily restricted, or permanently restricted net assets based on donors' restrictions and interpretations of Illinois law.

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

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

Income Taxes - The Institute is a not-for-profit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable Illinois statute, except with regards to unrelated business income, which is taxed at corporate income tax rates.

Other Transfers - The Institute records reclassifications between net asset categories as other transfers. Other transfers primarily consist of donor clarification on previously undetermined restrictions and net proceeds from events that have a restricted purpose. In 2007, the Institute reclassified $9.0 million of unrestricted investment income allocated in prior years on temporarily restricted funds that was reported previously as temporarily restricted.

New Accounting Pronouncements - In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 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. FIN 48 states that a tax benefit from an uncertain position may be recognized only if it is "more likely than not" that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. FIN 48 is effective for the Institute for 2008. The Institute does not expect an impact on the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

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

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

2. INVESTMENTS

Investments at June 30, 2007 and 2006, consist of the following (in thousands):

	2007			
	Pooled	Non-Pooled Investments	Modern Wing and Reinstallation Investments	Total
Cash and cash equivalents	$ 28,649	$ 996	$ 42,063	$ 71,708
Fixed income securities	91,458	3,321		94,779
Equity securities	388,078	3,867		391,945
Alternative structures	177,343			177,343
Other investments	97,210			97,210
Total assets held for investment	782,738	8,184	42,063	832,985
Assets held in trust by others		56,078		56,078
Total investments	$ 782,738	$ 64,262	$ 42,063	$ 889,063

	2006			
	Pooled	Non-Pooled Investments	Modern Wing and Reinstallation Investments	Total
Cash and cash equivalents	$ 20,062	$ 1,657	$ 75,368	$ 97,087
Fixed income securities	107,672	2,484		110,156
Equity securities	323,559	3,392		326,951
Alternative structures	138,102			138,102
Other investments	85,272	1,913		87,185
Total assets held for investment	674,667	9,446	75,368	759,481
Assets held in trust by others		51,145		51,145
Total investments	$ 674,667	$ 60,591	$ 75,368	$ 810,626

2. INVESTMENTS (continued)

Investments at June 30, 2007 and 2006, as a percentage consist of the following:

	2007			
	Pooled	Non-Pooled Investments	Modern Wing and Reinstallation Investments	Total
Cash and cash equivalents	3.7%	1.5%	100.0%	8.1%
Fixed income securities	11.7	5.2		10.7
Equity securities	49.6	6.0		44.1
Alternative structures	22.7			19.9
Other investments	12.3			10.9
Total assets held for investment	100.0	12.7	100.0	93.7
Assets held in trust by others		87.3		6.3
Total investments	100.0%	100.0%	100.0%	100.0%

	2006			
	Pooled	Non-Pooled Investments	Modern Wing and Reinstallation Investments	Total
Cash and cash equivalents	3.0%	2.7%	100.0%	12.0%
Fixed income securities	16.0	4.1		13.6
Equity securities	48.0	5.6		40.3
Alternative structures	20.5			17.0
Other investments	12.5	3.2		10.8
Total assets held for investment	100.0	15.6	100.0	93.7
Assets held in trust by others		84.4		6.3
Total investments	100.0%	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, 2007 and 2006, are as follows (in thousands):

	For the year ended 2007				
	Assets Held for Investment				
Change in market value:	Pooled	Non-Pooled	The Modern Wing and Reinstallation	Assets Held in Trust	Total
Realized	$ 47,869	$ 216	$	$	$ 48,085
Unrealized	67,258	299			67,557
Dividend and interest income	13,315	347	3,177	2,391	19,230
Cash gifts and other additions	7,490		25,726	5,100	38,316
Transfers in (out)	5,883	(2,124)	(62,208)	(217)	(58,666)
Investment management fees	(3,907)				(3,907)
Allocation of spendable funds	(29,837)			(2,341)	(32,178)
Net change in fair value	108,071	(1,262)	(33,305)	4,933	78,437
Fair value, beginning of year	674,667	9,446	75,368	51,145	810,626
Fair value, end of year	$ 782,738	$ 8,184	$ 42,063	$ 56,078	$ 889,063

	For the year ended 2006				
	Assets Held for Investment				
Change in market value:	Pooled	Non-Pooled	The Modern Wing and Reinstallation	Assets Held in Trust	Total
Realized	$ 34,404	$ 508	$	$	$ 34,912
Unrealized	26,279	(237)		(612)	25,430
Dividend and interest income	13,744	696	2,687	2,175	19,302
Cash gifts and other additions	19,932		45,508		65,440
Transfers in (out)	(1,253)	(1,052)	(21,199)	(1,837)	(25,341)
Investment management fees	(2,506)				(2,506)
Allocation of spendable funds	(26,669)			(2,175)	(28,844)
Net change in fair value	63,931	(85)	26,996	(2,449)	88,393
Fair value, beginning of year	610,736	9,531	48,372	53,594	722,233
Fair value, end of year	$ 674,667	$ 9,446	$ 75,368	$ 51,145	$ 810,626

Because investments include funds derived originally from permanently restricted gifts, the management of these funds is subject to Illinois state law. The Institute has interpreted state law as requiring the preservation of the original dollar value of these permanently restricted gifts. After maintaining this value, the Institute interprets the law as allowing it to use any of the investment returns as is prudent considering the Institute’s long- and short-term needs, expected total return on its investments, price level trends, and general economic conditions. The Institute is monitoring permanently restricted gifts in which historical cost exceeds market value as of June 30, 2007 and 2006. Historical cost exceeds market value for certain gifts by $21,000 at June 30, 2006. Market value exceeds historical cost for permanently restricted gifts at June 30, 2007.

2. INVESTMENTS (continued)

In accordance with this interpretation, the Institute adopted a long-term investment objective of sustaining the buying power of the investment principal through limiting the spendable portion of the annual total returns. This spendable amount for the years ended June 30, 2007 and 2006, which is classified in the revenues section of the statements of activities, was equal to 5% of the average market value of assets over twelve quarter periods ending December 31, 2005 and 2004, respectively. Additions to principal were factored in on a weighted-average basis through June 30, 2007 and 2006. Prior-year accumulated capital gains are utilized to the extent necessary to meet the annual spendable objective.

The market values (in thousands) and the rates of investment return on the pooled investments for the years ended June 30, 2007 and 2006, are summarized as follows:

	2007		2006	
	Fair Market Value	Rate of Return	Fair Market Value	Rate of Return
Pooled Endowment Funds Investments	$ 782,738	18.7 %	$ 674,667	12.2 %

The annualized rate of return is net of investment management fees. It 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 market value plus the weighted-average of net monthly additions.

3. CONTRIBUTIONS RECEIVABLE

Unconditional promises to contribute to the Institute are recorded as contributions receivable at the present value of future cash flows, net of allowance for uncollectible accounts. The present value discount rates for fiscal year 2007 ranged from 4.2% to 4.5% and for fiscal year 2006 ranged from 4.1% to 4.4%. Contributions receivable are expected to be realized as follows (in thousands):

Collectible during the following periods:	2007	2006
Year one	$ 17,411	$ 8,927
Year two	10,079	10,385
Year three	8,879	5,851
Year four	4,164	4,035
Year five and thereafter	6,928	1,296
Gross contributions receivable	47,461	30,494
Present value discount	(4,730)	(2,609)
Allowance for uncollectible contributions	(1,180)	(750)
Net contributions receivable	$ 41,551	$ 27,135

4. PROPERTY AND EQUIPMENT, NET

Property and equipment at June 30, 2007 and 2006, consist of the following (in thousands):

	2007	2006
Land	$ 11,351	$ 11,430
Buildings and improvements	266,411	253,511
Equipment, furniture, and fixtures	23,893	21,621
Total property and equipment	301,655	286,562
Construction in progress	132,599	68,571
Accumulated depreciation	(111,298)	(98,004)
Property and equipment, net	$ 322,956	$ 257,129

4. PROPERTY AND EQUIPMENT, NET (continued)

In 2006, the Institute executed purchase and sale agreements related to four of its buildings. On August 8, 2005, the building classified as "Asset held for sale" in the 2005 financial statements was sold. The proceeds from the sale were approximately $9 million and the sale resulted in a loss of $922,000. On September 9, 2005, the other three buildings were subject to a single transaction. As part of this transaction, the Institute received $11.6 million in cash and contracted to receive 41,000 square feet of space to be conveyed via fee simple title once construction of a proposed redevelopment is completed. At the time the title is conveyed, the Institute will receive an additional $1.6 million in cash and construction services. If the proposed redevelopment is not completed or certain other conditions are not met, the Institute will be provided rent-free space for a period of 43 years or until the conveyance of the title. The Institute recorded a gain of $712,000 on the sale of the buildings and a receivable for the present value of the property and cash along with an offsetting deferred gain of $10 million. The deferred gain will be recognized at such time when substantially all uncertainties about the construction of the developed property are resolved.

On October 26, 2006, Ox-Bow sold property of which the proceeds from the sale were approximately $1.9 million and the sale resulted in a gain of $588,000.

5. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable at June 30, 2007 and 2006, consist of the following (in thousands):

	2007	2006
Accounts payable	$ 28,160	$ 18,143
Art purchase liability	10,942	
Asset retirement obligations	5,521	5,332
Accrued salaries and benefits	3,295	1,954
Other liabilities	2,945	2,306
Total accounts payable and other liabilities	$ 50,863	$ 27,735

Payments for art purchase liability are due on varying dates from 2008 through 2010.

The asset retirement obligations primarily consist of asbestos removal costs. As a result of adopting FASB Interpretation "FIN" No. 47, *Accounting for Conditional Retirement Obligations* in 2006 the Institute recorded a cumulative effect of change in accounting principle of $4.9 million. The assets that are held for purposes of settling asset retirement obligations are $1.7 million less accumulated deprecation $1.5 million as of June 30, 2007 and 2006, respectively. The change in the asset retirement obligation for the years ended June 30, 2007 and 2006, are as follows (in thousands):

	2007	2006
Asset retirement obligations, beginning of year	$ 5,332	$ 5,115
Accretion expense	226	217
Settlements paid	(122)	
Change in estimate	85	
Asset retirement obligations, end of year	$ 5,521	$ 5,332

6. NOTES PAYABLE

Notes payable at June 30, 2007, consist of the following (in thousands):

	Principal Amount	% of Total Bonds	% of Total O/S Debt	Date of Maturity	Principal Payable	Interest Payment Dates	Interest Reset Period	Interest Rates
Bonds:								
Variable/Short-term:								
Adjustable Interest Rates								
Demand Revenue -Tax-exempt:								
Series 1996	$ 31,700			3/1/2027	At maturity	Monthly	Weekly	3.78%
Series 1995	18,300			3/1/2027	At maturity	Monthly	Weekly	3.78%
Series 1992	18,000			3/1/2027	At maturity	Monthly	Weekly	3.78%
Total Variable/Short-term	68,000	34.7%	34.4%					
Medium/Long-term:								
Adjustable Interest Rates								
Demand Revenue - Tax Exempt:								
Series 2000A	78,525			3/1/2034	At maturity	March 1, September 1	1-8 years	3.10% to 4.45%
Medium Term Revenue:								
Tax-exempt:								
Series 1998A	29,880			3/1/2030	At maturity	March 1, September 1	1-9 years	3.50% to 4.85%
Taxable:								
Series 1998B	3,835			3/1/2030	At maturity	March 1, September 1	2 years	3.85%
Fixed Interest Rates:								
Revenue Refunding:								
Series 2003	15,525			3/1/2023	Varying dates and amounts	March 1, September 1	N/A	3.00% to 5.38%
Total Medium/Long-term	127,765	65.3%	64.5%					
Total Bonds	195,765	100.0%	98.9%					
Bank Debt:								
JP Morgan Chase								
$15 million working capital line of credit	1,400		0.7%		On demand	Varying dates	Varying dates	LIBOR+20bps
$10 million interim construction line of credit	-		0.0%		On demand	Varying dates	Varying dates	LIBOR+20bps
Auxiliary activity note	778		0.4%	5/1/2013	On demand	Monthly	N/A	1.09 to 4.24%
Total Outstanding Debt	197,943		100.0%					
Unamortized premium	504							
Total	$ 198,447							

6. NOTES PAYABLE (continued)

Notes payable at June 30, 2006 consist of the following (in thousands):

	Principal Amount	% of Total Bonds	% of Total O/S Debt	Date of Maturity	Principal Payable	Interest Payment Dates	Interest Reset Period	Interest Rates
Bonds:								
Variable/Short-term:								
Adjustable Interest Rates								
Taxable:								
Series 2000B	$ 4,800			3/1/2034	At maturity	Monthly	Weekly	5.38%
Demand Revenue -Tax-exempt:								
Series 1996	31,700			3/1/2027	At maturity	Monthly	Weekly	3.98%
Series 1995	18,300			3/1/2027	At maturity	Monthly	Weekly	3.98%
Series 1992	18,000			3/1/2027	At maturity	Monthly	Weekly	3.98%
Total Variable/Short-term	72,800	36.0%	35.0%					
Medium/Long-term:								
Adjustable Interest Rates								
Demand Revenue -								
Tax Exempt:								
Series 2000A	78,525			3/1/2034	At maturity	March 1, September 1	2-9 years	3.10% to 4.45%
Medium Term Revenue:								
Tax-exempt:								
Series 1998A	30,980			3/1/2030	At maturity	March 1, September 1	1-10 years	2.25% to 4.85%
Taxable:								
Series 1998B	3,835			3/1/2030	At maturity	March 1, September 1	3 years	3.85%
Fixed Interest Rates:								
Revenue Refunding:								
Series 2003	16,195			3/1/2023	Varying dates and amounts	March 1, September 1	N/A	2.75% to 5.38%
Total Medium/Long-term	129,535	64.0%	62.4%					
Total Bonds	202,335	100.0%	97.4%					
Bank Debt:								
JP Morgan Chase								
$15 million working capital line of credit	4,500		2.2%		On demand	Varying dates	Varying dates	LIBOR+20bps
$10 million interim construction line of credit	-		0.0%		On demand	Varying dates	Varying dates	LIBOR+20bps
Auxiliary activity note	887		0.4%	5/1/2013	On demand	Monthly	N/A	1.09 to 4.24%
Total Outstanding Debt	207,722		100.0%					
Unamortized premium	536							
Total	$ 208,258							

6. NOTES PAYABLE (continued)

The market value of notes payable is approximately $400,000 greater than the carrying value as of June 30, 2007. All bonds are issued through the Illinois Finance Authority, formerly known as Illinois Educational Facilities Authority. Adjustable interest rate bonds are remarketed with new interest rates and interest reset periods after the expiration of the applicable interest period. Taxable bond issues may be converted to tax-exempt upon the occurrence of certain events.

The Institute has agreed to maintain certain financial ratios related to debt service, including ratios of indebtedness to net assets and assets available for debt service to debt service requirements. Minimum mandatory redemption payment on the Illinois Finance Authority Bond Issues, which approximate minimum sinking fund requirements, is $715,000 for 2008, and an additional total of $195,050,000 through the ultimate maturity dates of the bonds. The Institute was in compliance with all debt covenants at June 30, 2007.

In December 2005, the Institute elected to make a partial prepayment on the Series 2000A issue in order to provide for the defeasance of $2.3 million due on March 1, 2008. The Institute deposited cash with the Series 2000 trustee in the Securities Trust Fund for the purpose of purchasing defeasance obligations.

The Institute has secured a $15 million working line of credit through JPMorgan Chase Bank expiring on May 31, 2008. As of June 30, 2007 and 2006, $1.4 million and $4.5 million were borrowed against the credit line at a rate of 5.57% and 5.55%, respectively. The Institute has secured a $10 million line of credit through JPMorgan Chase Bank for interim financing of construction for The Modern Wing and Gallery Reinstallation expiring on September 30, 2010. As of June 30, 2007 and 2006, the line of credit was unused.

7. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Institute has a qualified, non-contributory defined benefit pension plan (the “Plan”) covering staff employees who meet the Plan’s eligibility. All staff employees hired after December 31, 2006 are not eligible for the defined benefit plan and are instead covered by a defined contribution plan. Eligible faculty of the School participate in a defined contribution plan in lieu of participation in the Institute’s pension plan. A supplemental retirement plan is provided for certain employees whose benefits are restricted under the qualified Plan. The Institute also provides medical, dental, and life insurance benefits (“Other Benefits”) to certain Plan retirees on a contributory basis until the retirees attain the age of 65.

7. PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

The following table sets forth the Plan's benefit obligation, plan assets, and funded status reconciled with the amounts set forth in the consolidated statement of financial position at June 30, 2007 and 2006 (in thousands):

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Change in benefit obligation				
Benefit obligation, beginning of year	$ 72,648	$ 79,438	$ 585	$ 569
Service cost	2,098	2,598		
Interest cost	4,758	4,146	22	22
Amendments	164			
Actuarial (gain) loss	9,119	(10,758)	(9)	94
Benefits paid	(2,928)	(2,776)	(88)	(100)
Projected benefit obligation, end of year	$ 85,859	$ 72,648	$ 510	$ 585
Change in plan assets				
Fair value of plan assets, beginning of year	$ 62,817	$ 55,711	$	$
Actual return on plan assets	10,670	4,806		
Employer contribution	3,387	5,076		
Benefits paid	(2,928)	(2,776)		
Fair value of plan assets, end of year	$ 73,946	$ 62,817	$ -	$ -
Funded status at the end of the year	$ (11,913)	$ (9,831)	$ (510)	$ (585)

The incremental effect of adopting SFAS No. 158 on the statement of financial position as of June 30, 2007, is as follows (in thousands):

	Increase (decrease)		
	Cumulative effect before adoption of SFAS No. 158	Adjustments to adopt SFAS No. 158	Cumulative effect after adoption of SFAS No. 158
Pension liability	$ 3,927	$ 7,986	$ 11,913
Unrestricted net assets	(12,737)	(7,986)	(20,723)

In accordance with SFAS No. 158 adopted by the Institute in fiscal year 2007, all previously unrecognized actuarial losses and prior service costs are reflected in the consolidated statement of financial position. The pension plan and other benefit plan items not yet recognized as a component of periodic pension and postretirement expense, but included as a cumulative separate charge to net assets at June 30, 2007 and 2006, are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Net actuarial loss	$ 22,073	$	$ 22	$
Prior service credit	(1,350)		(13)	
Net amount recognized	$ 20,723	$ -	$ 9	$ -

7. PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

As of June 30, 2007 and 2006, information for pension plans with an accumulated benefit obligation in excess of plan assets consist of the following (in thousands):

	2007	2006
Projected benefit obligation	$ 85,859	$ 72,648
Accumulated benefit obligation	77,873	65,271
Fair value of plan assets	73,946	62,817

As of June 30, 2006, under SFAS No. 87, *Employers' Accounting for Pensions*, a minimum pension liability was recorded as the fair value of plan assets of $62.8 million was less than the accumulated benefit obligation of $65.3 million. As a result, the consolidated statement of financial position includes a minimum pension liability of $2.5 million and the statement of activities and change in net assets includes an adjustment to reflect the minimum pension liability of $13.3 million for the year ended June 30, 2006.

As of June 30, 2007 and 2006, components of net periodic benefit cost consist of the following (in thousands):

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Service cost	$ 2,097	$ 2,598	$	$
Interest cost	4,758	4,146	22	22
Expected return on plan assets	(4,676)	(4,203)		
Amortization of prior service cost	(216)	(216)	(4)	(4)
Amortization of net actuarial loss	1,424	2,751		(1)
Net periodic benefit cost	$ 3,387	$ 5,076	$ 18	$ 17

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 2008 are $1.3 million and ($200,000), respectively.

The estimated prior service credit for the other defined benefit postretirement plan that will be amortized and recognized in net periodic benefit cost for fiscal year 2008 is ($5,000).

Assumptions—Weighted-average assumptions used to determine benefit obligations at June 30, 2007 and 2006, are as follows:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Discount rate	6.30 %	6.40 %	5.61 %	4.25 %
Expected return on plan assets	7.50 %	7.50 %		
Rate of compensation increase	4.20	4.20		

Weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30, 2007 and 2006, are as follows:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Discount rate	6.40 %	5.25 %	4.25 %	4.25 %
Expected long-term return on plan assets	7.50	7.50		
Rate of compensation increase	4.20	4.20		

7. PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

Assumed health care cost trend rates at June 30, 2007 and 2006, are as follows:

	Other Benefits	
	2007	2006
Health care cost trend rate assumed for next year	9.00 %	9.00 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	6.00 %	6.00 %
Year that the rate reaches the ultimate trend rate	2010	2010

Assumed health care cost trend rates have an effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands):

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total of service and interest cost	$ 1	$ (1)
Effect on postretirement benefit obligation	12	(11)

Plan Assets—The Institute's pension plan weighted-average asset allocations at June 30, 2007 and 2006, by asset category are as follows:

	Pension		
Asset Category	2007	2006	Target Allocation
Cash and cash equivalents	1 %	7 %	2 %
Equity securities	61	55	60
Fixed income securities	38	38	38
Total	100 %	100 %	100 %

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

Contributions—AIC expects to contribute $3.4 million to its pension plan and $88,000 to its other postretirement benefit plan in fiscal year 2008.

7. PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

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

Year Ending June 30,	Pension Benefits	Other Benefits
2008	$ 3,402	$ 88
2009	3,733	91
2011	4,007	97
2011	4,296	104
2012	4,584	110
2013 - 2017	27,825	96

Employer contributions to the defined contribution plan totaled $1.1 million and $831,000 for the years ended June 30, 2007 and 2006, respectively. Employer contributions to the supplemental retirement plan totaled $61,000 and $156,000 for the years ended June 30, 2007 and 2006, respectively.

8. NATURAL CLASSIFICATION OF EXPENSES

Expenses by natural classification for operating activities for the year ended June 30, 2007, are as follows (in thousands):

	Museum	School	Ox-Bow	Total	% of Total
Salaries and wages	$ 26,580	$ 35,516	$ 472	$ 62,568	39.5%
Fringe benefits	6,690	8,382	31	15,103	9.5%
Contracted services	7,698	7,812	241	15,751	9.9%
Equipment, rental and maintenance	1,808	6,091	65	7,964	5.0%
Travel and entertainment	1,329	1,490	87	2,906	1.8%
Telephone, copy, fax, postage	1,111	991	36	2,138	1.4%
Supplies, books and subscriptions	1,914	1,019	289	3,222	2.0%
Publications and printing	2,107	950	10	3,067	1.9%
Publicity and promotions	1,490	967	48	2,505	1.6%
Cost of sales	5,945	1,295		7,240	4.6%
Utilities	2,731	2,029	13	4,773	3.0%
Bad debt	8	341		349	0.2%
Accretion expense	196	30		226	0.1%
Interest	2,511	5,766		8,277	5.2%
Depreciation	6,285	6,677	131	13,093	8.3%
Other	6,353	2,713	57	9,123	5.8%
Total	$ 74,756	$ 82,069	$ 1,480	$ 158,305	100%

8. NATURAL CLASSIFICATION OF EXPENSES (continued)

Expenses by natural classification for operating activities for the year ended June 30, 2006, are as follows (in thousands):

	Museum	School	Ox-Bow	Total	% of Total
Salaries and wages	$ 24,456	$ 33,035	$ 281	$ 57,772	38.8%
Fringe benefits	7,105	8,130	44	15,279	10.3%
Contracted services	7,301	6,007	170	13,478	9.1%
Equipment, rental and maintenance	1,986	4,724	21	6,731	4.5%
Travel and entertainment	1,312	1,078	12	2,402	1.6%
Telephone, copy, fax, postage	996	993	42	2,031	1.4%
Supplies, books and subscriptions	1,819	899	345	3,063	2.1%
Publications and printing	2,133	701	10	2,844	1.9%
Publicity and promotions	1,541	917	35	2,493	1.7%
Cost of sales	6,892	790		7,682	5.2%
Utilities	2,270	2,033	18	4,321	2.9%
Bad debt	20	380	4	404	0.3%
Interest	2,492	6,090		8,582	5.8%
Depreciation	6,044	6,278	66	12,388	8.3%
Other	5,953	3,258	52	9,263	6.1%
Total	$ 72,320	$ 75,313	$ 1,100	$ 148,733	100%

9. COMMITMENTS AND CONTINGENCIES

During 2006 and 2007, the Institute continued construction of a new wing of the museum, The Modern Wing. This project includes a 264,000 square foot addition to its Grant Park facility and plans for a bridgeway connecting The Modern Wing and Millennium Park. This addition will increase the museum's gallery, education, and art storage space as well as other public areas.

The project is estimated to cost approximately $282.9 million, which the Board plans to finance primarily through contributions for the project. The Board has approved utilizing short-term financing during the construction period until pledge payments are received. The Institute has spent $129.4 million for the addition as of June 30, 2007, and anticipates completing the project in 2009. The Institute has received a conditional gift for the project in the amount of $11 million. The gift and interest is recorded as a refundable advance until such time that the condition has been met. Subsequent to June 30, 2007, the condition of the gift has been met.

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 financial position or statement of activities.

The Institute has operating lease agreements for academic, office, and storage space and office equipment under operating leases expiring in various years through 2018. Certain operating leases provide for renewal options for periods from five to ten years. Total lease expenses are $1.6 million and $1.7 million for the years ended June 30, 2007 and 2006, respectively.

9. COMMITMENTS AND CONTINGENCIES (continued)

Minimum future lease payments under noncancelable operating leases having remaining terms in excess of one year as of June 30, 2007, are as follows (in thousands):

Year ending June 30,		
2008	$	1,188
2009		1,962
2010		2,190
2011		2,096
2012		1,999
2013 and thereafter		12,243
Total minimum lease payments	$	21,678

The Institute has capital lease agreements for office equipment expiring in 2011. The equipment had a cost of $721,000 and accumulated depreciation of $375,000 as of June 30, 2007.

Minimum future lease payments under capital leases as of June 30, 2007, are as follows (in thousands):

Year ending June 30,		
2008	$	174
2009		172
2010		58
2011		5
Total minimum lease payments		409
Less amount representing interest and executory costs		(46)
Present value of minimum lease payments	$	363

10. RELATED-PARTY TRANSACTIONS

All members of the Board of Trustees, Board of Governors, and Standing and Advisory Committees, and all officers and assistant officers of the Institute (collectively known as “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 Chairman of the Board and to the Institute’s General Counsel. The Related Party may not vote on, approve, or recommend any action or matter in which he or she has an actual or potential conflict of interest. In the event of an actual or potential conflict, the Related Party cannot be counted for purposes of determining whether there is a quorum. Financial interests or other activities that would constitute a conflict of interest if undertaken by a Related Party also constitute a conflict of interest if undertaken by an immediate family member of the Related Party and must be disclosed by the Related Party. All Related Parties, other than members of the curatorial, museum education, and library Advisory Committees, are required to attest annually to their familiarity with this policy and to provide any information the Institute deems relevant concerning any possible conflicts of interest.

The Institute has provided a $200,000 interest-free mortgage to an officer with a fifteen-year term secured by the property. The mortgage at June 30, 2007 and 2006 is $186,000 and $191,000, respectively.

11. RESTRICTIONS ON NET ASSETS

The nature of restrictions on net assets released from donor restrictions for the year ended June 30, 2007 and 2006, are summarized as follows (in thousands):

	2007	2006
Purchase of art objects	$ 19,391	$ 14,284
Purchase of books	37	673
Student aid	1,334	6,791
Museum exhibitions	1,806	1,159
Museum publications	80	621
Gallery maintenance, professorships, and curatorships	2,154	1,365
Facilities	4,354	4,842
Education, instruction, and other	5,086	560
Total	$ 34,242	$ 30,295

Net assets categorized by donor restrictions as of June 30, 2007, are summarized as follows (in thousands):

	Temporarily Restricted	Permanently Restricted
Purchase of art objects	$ 101,902	$ 33,034
Purchase of books	300	1,654
Student aid	22,263	19,646
Museum exhibitions	5,850	14,465
Museum publications	7,785	1,510
Gallery maintenance, professorships, and curatorships	1,894	53,989
Facilities	159,309	
Education, instruction, and other	85,635	51,143
Time-restricted net assets/assets held in trust by others	30,591	66,319
General purposes		28,088
Total	$ 415,529	$ 269,848

Net assets categorized by donor restrictions as of June 30, 2006, are summarized as follows (in thousands):

	Temporarily Restricted	Permanently Restricted
Purchase of art objects	$ 93,279	$ 32,195
Purchase of books	275	1,644
Student aid	19,228	18,473
Museum exhibitions	4,240	11,884
Museum publications	6,547	1,510
Gallery maintenance, professorships, and curatorships	1,619	53,510
Facilities	105,993	
Education, instruction, and other	119,649	48,098
Time-restricted net assets/assets held in trust by others	17,642	58,834
General purposes		27,527
Total	$ 368,472	$ 253,675

12. CONSOLIDATING STATEMENTS

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

Upon review of the agreement, AIC's management concluded that it is required to consolidate Ox-Bow. AIC has consolidated the results of Ox-Bow effective July 1, 2005, as such the opening net asset balance and cash balance have been included in the 2006 statement of financial position and statement of cash flows as a cumulative effect of change in reporting entity. Inter-entity transactions and balances have been eliminated in consolidation.

The consolidating statement of financial position as of June 30, 2007, is as follows (in thousands):

	AIC	Ox-Bow	Eliminating Entries	Total
Assets:				
Cash and cash equivalents	$ 2,052	$ 2,237	$	$ 4,289
Accounts and investment income receivable	8,686	76	(55)	8,707
Contributions receivable	41,537	74	(60)	41,551
Inventories	5,812	5		5,817
Prepaid expenses and other assets	5,753	25		5,778
Building sale receivable	10,731			10,731
Investments	889,063			889,063
Property and equipment, net	319,143	3,813		322,956
Total assets	**$ 1,282,777**	**$ 6,230**	**$ (115)**	**$ 1,288,892**
Liabilities and net assets:				
Liabilities:				
Accrued interest payable	$ 1,965	$	$	$ 1,965
Accounts payable and other liabilities	50,863	115	(115)	50,863
Deferred revenues	22,249			22,249
Refundable advances	14,903			14,903
Pension liability	11,913			11,913
Notes payable	198,447			198,447
Total liabilities	**300,340**	**115**	**(115)**	**300,340**
Net assets:				
Unrestricted	300,880	2,295		303,175
Temporarily restricted	413,354	2,175		415,529
Permanently restricted	268,203	1,645		269,848
Total net assets	**982,437**	**6,115**	**-**	**988,552**
Total liabilities and net assets	**$ 1,282,777**	**$ 6,230**	**$ (115)**	**$ 1,288,892**

12. CONSOLIDATING STATEMENTS (continued)

The consolidating statement of activities for the year ended June 30, 2007, is as follows (in thousands):

	AIC	Ox-Bow	Eliminating Entries	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 83,844	$ 976	$ -	84,820
Student aid	(20,979)	(89)		(21,068)
Tuition and student program fees, net	62,865	887	-	63,752
Contributions	70,042	918	(320)	70,640
Chicago Park District tax	6,790			6,790
Museum admissions	6,349			6,349
Membership dues	4,356			4,356
Special exhibitions, catalogues, and other revenues	172			172
Other program revenues	7,526	27		7,553
Investment return designated for current use	29,492	160		29,652
Auxiliary activities	23,192			23,192
Other	3,328	33		3,361
Net assets released from restrictions				-
Total operating revenue, gains, and other support	214,112	2,025	(320)	215,817
Expenses and losses:				
Programs services				
Curatorial, libraries, and collections	27,082			27,082
Special exhibitions	3,152			3,152
Museum education	3,234			3,234
Other programs	5,719			5,719
Instructional and academic	51,445	1,199	(320)	52,324
Auxiliary activities	15,630			15,630
Managerial and general				
General administration	21,422	170		21,592
Depreciation	12,962	131		13,093
Interest and debt issuance cost	8,277			8,277
Member development	1,548			1,548
Fund raising	6,354	300		6,654
Total expenses and losses	156,825	1,800	(320)	158,305
Change in net assets from operations before property sale	57,287	225	-	57,512
Gain on property sale		588		588
Change in net assets from operations	**57,287**	**813**	**-**	**58,100**
Nonoperating revenue, expenses, support, gains and losses:				
Proceeds from the sale of art objects	5,745			5,745
Contributions for the purchase of art objects	3,196			3,196
Net assets released to fund acquisition of art objects				-
Investment return designated for art purchases	4,821			4,821
Acquisition of art objects	(19,858)			(19,858)
Adjustment to reflect minimum pension liability	(1,483)			(1,483)
Investment return in excess of amounts designated for current operations	95,400			95,400
Other transfers				-
Change in net assets before effect of adoption of SFAS No. 158	**145,108**	**813**	**-**	**145,921**
Cumulative effect of adoption of SFAS No. 158	(7,986)			(7,986)
Change in net assets	**137,122**	**813**	**-**	**137,935**
Net assets, beginning of year	845,315	5,302		850,617
Net assets, end of year	**$ 982,437**	**$ 6,115**	**$ -**	**$ 988,552**

12. CONSOLIDATING STATEMENTS (continued)

The consolidating statement of financial position as of June 30, 2006, is as follows (in thousands):

	AIC	Ox-Bow	Eliminating Entries	Total
Assets:				
Cash and cash equivalents	$ 4,110	$ 420	$	$ 4,530
Accounts and investment income receivable	8,596		(79)	8,517
Contributions receivable	26,968	477	(310)	27,135
Inventories	3,965	5		3,970
Prepaid expenses and other assets	3,999	28		4,027
Building sale receivable	10,033			10,033
Investments	810,626			810,626
Property and equipment, net	252,005	5,124		257,129
Total assets	**$ 1,120,302**	**$ 6,054**	**$ (389)**	**$ 1,125,967**
Liabilities and net assets:				
Liabilities:				
Accrued interest payable	$ 1,994	$	$	$ 1,994
Accounts payable and other liabilities	27,481	643	(389)	27,735
Deferred revenues	20,461	109		20,570
Refundable advances	14,341			14,341
Pension liability	2,452			2,452
Notes payable	208,258			208,258
Total liabilities	**274,987**	**752**	**(389)**	**275,350**
Net assets:				
Unrestricted	226,467	2,003		228,470
Temporarily restricted	365,173	3,299		368,472
Permanently restricted	253,675			253,675
Total net assets	**845,315**	**5,302**	**-**	**850,617**
Total liabilities and net assets	**$ 1,120,302**	**$ 6,054**	**$ (389)**	**$ 1,125,967**

12. CONSOLIDATING STATEMENTS (continued)

The consolidating statement of activities for the year ended June 30, 2006, is as follows (in thousands):

	AIC	Ox-Bow	Eliminating Entries	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 73,224	$ 468	$	73,692
Student aid	(17,159)			(17,159)
Tuition and student program fees, net	56,065	468	-	56,533
Contributions	82,521	2,427	(1,065)	83,883
Chicago Park District tax	6,924			6,924
Museum admissions	6,875			6,875
Membership dues	5,090			5,090
Special exhibitions, catalogues, and other revenues	554			554
Other program revenues	7,886	26		7,912
Investment return designated for current use	27,548			27,548
Auxiliary activities	22,955			22,955
Other	2,039			2,039
Net assets released from restrictions				-
Total operating revenue, gains, and other support	218,457	2,921	(1,065)	220,313
Expenses and losses:				
Programs services				
Curatorial, libraries, and collections	24,790			24,790
Special exhibitions	4,061			4,061
Museum education	3,136			3,136
Other programs	5,464			5,464
Instructional and academic	48,103	654	(1,294)	47,463
Auxiliary activities	16,492			16,492
Managerial and general				
General administration	18,860	91		18,951
Depreciation	12,322	66		12,388
Interest and debt issuance cost	8,582			8,582
Member development	1,249			1,249
Fund raising	5,868	289		6,157
Total expenses and losses	148,927	1,100	(1,294)	148,733
Change in net assets from operations before building sales and interest rate swap	69,530	1,821	229	71,580
Loss on building sales	(210)			(210)
Gain on interest rate swap	89			89
Change in net assets from operations	**69,409**	**1,821**	**229**	**71,459**
Nonoperating revenue, expenses, support, gains and losses:				
Proceeds from the sale of art objects	6,132			6,132
Contributions for the purchase of art objects	1,492			1,492
Net assets released to fund acquisition of art objects				-
Investment return designated for art purchases	4,276			4,276
Acquisition of art objects	(14,458)			(14,458)
Adjustment to reflect minimum pension liability	13,264			13,264
Investment return in excess of amounts designated for current operations	47,522			47,522
Other transfers				-
Change in net assets before accounting change and reporting entity	**127,637**	**1,821**	**229**	**129,687**
Cumulative effect of adoption of FIN 47	(4,933)	-	-	(4,933)
Cumulative effect of change in reporting entity		3,481	(229)	3,252
Change in net assets	**122,704**	**5,302**	**-**	**128,006**
Net assets, beginning of year	722,611			722,611
Net assets, end of year	**$ 845,315**	**$ 5,302**	**$ -**	**$ 850,617**

12. CONSOLIDATING STATEMENTS (continued)

The consolidating condensed cash flow activity for the years ended June 30, 2007 and 2006, are as follows (in thousands):

	For the year ended 2007		
	AIC	Ox-Bow	Total
Net cash provided by operating activities	$ 12,358	$ 49	$ 12,407
Net cash provided by (used in) investing activities	(41,696)	1,768	(39,928)
Net cash provided by financing activities	27,280		27,280
Net increase (decrease) in cash and cash equivalents	**(2,058)**	**1,817**	**(241)**
Cash and cash equivalents at the beginning of the year	4,110	420	4,530
Cash and cash equivalents at the end of the year	**$ 2,052**	**$ 2,237**	**$ 4,289**

	For the year ended 2006		
	AIC	Ox-Bow	Total
Net cash provided by operating activities	$ 4,611	$ 2,460	$ 7,071
Net cash used in investing activities	(51,704)	(2,273)	(53,977)
Net cash provided by financing activities	47,074		47,074
Net increase (decrease) in cash and cash equivalents	**(19)**	**187**	**168**
Cash and cash equivalents at the beginning of the year	4,129		4,129
Cash and cash equivalents from cumulative effect of change in reporting entity		233	233
Cash and cash equivalents at the end of the year	**$ 4,110**	**$ 420**	**$ 4,530**

13. AIC STATEMENTS OF ACTIVITIES

AIC statement of activities, which excludes Ox-Bow, for the year ended June 30, 2007, is as follows (in thousands):

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 83,844	$	$	83,844
Student aid	(20,979)			(20,979)
Tuition and student program fees, net	62,865	-	-	62,865
Contributions	14,020	42,649	13,373	70,042
Chicago Park District tax	6,790			6,790
Museum admissions	6,349			6,349
Membership dues	4,356			4,356
Special exhibitions, catalogues, and other revenues	172			172
Other program revenues	7,526			7,526
Investment return designated for current use	22,369	7,015	108	29,492
Auxiliary activities	23,192			23,192
Other	3,328			3,328
Net assets released from restrictions	14,711	(14,711)		-
Total operating revenue, gains, and other support	165,678	34,953	13,481	214,112
Expenses and losses:				
Programs services				
Curatorial, libraries, and collections	27,082			27,082
Special exhibitions	3,152			3,152
Museum education	3,234			3,234
Other programs	5,719			5,719
Instructional and academic	51,445			51,445
Auxiliary activities	15,630			15,630
Managerial and general				
General administration	21,422			21,422
Depreciation	12,962			12,962
Interest and debt issuance cost	8,277			8,277
Member development	1,548			1,548
Fund raising	6,354			6,354
Total expenses and losses	156,825	-	-	156,825
Change in net assets from operations	**8,853**	**34,953**	**13,481**	**57,287**
Nonoperating revenue, expenses, support, gains and losses:				
Proceeds from the sale of art objects		5,745		5,745
Contributions for the purchase of art objects		2,663	533	3,196
Net assets released to fund acquisition of art objects	19,391	(19,391)		-
Investment return designated for art purchases	547	4,231	43	4,821
Acquisition of art objects	(19,858)			(19,858)
Adjustment to reflect minimum pension liability	(1,483)			(1,483)
Investment return in excess of amounts designated for current operations	65,398	29,689	313	95,400
Other transfers	9,551	(9,709)	158	-
Change in net assets before effect of adoption of SFAS No. 158	**82,399**	**48,181**	**14,528**	**145,108**
Cumulative effect of adoption of SFAS No. 158	(7,986)			(7,986)
Change in net assets	**74,413**	**48,181**	**14,528**	**137,122**
Net assets, beginning of year	226,467	365,173	253,675	845,315
Net assets, end of year	**$ 300,880**	**$ 413,354**	**$ 268,203**	**$ 982,437**

13. AIC STATEMENTS OF ACTIVITIES (continued)

AIC statement of activities, which excludes Ox-Bow, for the year ended June 30, 2006, is as follows (in thousands):

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 73,224	$	$	73,224
Student aid	(17,159)			(17,159)
Tuition and student program fees, net	56,065	-	-	56,065
Contributions	13,432	42,711	26,378	82,521
Chicago Park District tax	6,924			6,924
Museum admissions	6,875			6,875
Membership dues	5,090			5,090
Special exhibitions, catalogues, and other revenues	554			554
Other program revenues	7,886			7,886
Investment return designated for current use	18,297	9,157	94	27,548
Auxiliary activities	22,955			22,955
Other	2,039			2,039
Net assets released from restrictions	17,011	(17,011)		-
Total operating revenue, gains, and other support	157,128	34,857	26,472	218,457
Expenses and losses:				
Programs services				
Curatorial, libraries, and collections	24,790			24,790
Special exhibitions	4,061			4,061
Museum education	3,136			3,136
Other programs	5,464			5,464
Instructional and academic	48,103			48,103
Auxiliary activities	16,492			16,492
Managerial and general				
General administration	18,860			18,860
Depreciation	12,322			12,322
Interest and debt issuance cost	8,582			8,582
Member development	1,249			1,249
Fund raising	5,868			5,868
Total expenses and losses	148,927	-	-	148,927
Change in net assets from operations before building sales and interest rate swap	8,201	34,857	26,472	69,530
Loss on building sales	(210)			(210)
Gain on interest rate swap	89			89
Change in net assets from operations	**8,080**	**34,857**	**26,472**	**69,409**
Nonoperating revenue, expenses, support, gains and losses:				
Proceeds from the sale of art objects		6,132		6,132
Contributions for the purchase of art objects		1,462	30	1,492
Net assets released to fund acquisition of art objects	14,284	(14,284)		-
Investment return designated for art purchases	206	4,032	38	4,276
Acquisition of art objects	(14,458)			(14,458)
Adjustment to reflect minimum pension liability	13,264			13,264
Investment return in excess of amounts designated for current operations	32,026	15,356	140	47,522
Other transfers	355	1,656	(2,011)	-
Change in net assets before accounting change	**53,757**	**49,211**	**24,669**	**127,637**
Cumulative effect of adoption of FIN 47	(4,933)			(4,933)
Change in net assets	**48,824**	**49,211**	**24,669**	**122,704**
Net assets, beginning of year	177,643	315,962	229,006	722,611
Net assets, end of year	**$ 226,467**	**$ 365,173**	**$ 253,675**	**$ 845,315**

13. AIC STATEMENTS OF ACTIVITIES (continued)

Unrestricted activity for Museum programs for the years ended June 30, 2007 and 2006, are as follows (in thousands):

	Museum	
	2007	2006
Operating revenue, gains, and other support:		
Contributions	$ 11,079	$ 10,670
Chicago Park District tax	6,790	6,924
Museum admissions	6,349	6,875
Membership dues	4,356	5,090
Special exhibitions	172	554
Other program revenues	3,367	3,919
Investment return designated for current use	17,103	13,287
Auxiliary activities	15,080	16,067
Other	2,049	949
Net assets released from restrictions	12,293	11,410
Total operating revenue, gains, and other support	78,638	75,745
Expenses and losses:		
Programs services:		
Curatorial, libraries, and collections	27,082	24,790
Special exhibitions	3,152	4,061
Museum education	3,234	3,136
Other programs	4,219	4,100
Auxiliary activities	12,363	13,568
Managerial and general:		
General administration	9,655	8,516
Depreciation	6,285	6,044
Interest and debt issuance cost	2,511	2,492
Member development	1,548	1,249
Fund raising	4,707	4,364
Total expenses and losses	74,756	72,320
Change in net assets from operations before building sales and interest rate swap	3,882	3,425
Loss on building sales		(353)
Gain on interest rate swap		27
Change in net assets from operations	$ 3,882	$ 3,099

13. AIC STATEMENTS OF ACTIVITIES (continued)

Unrestricted activity for School programs for the years ended June 30, 2007 and 2006, are as follows (in thousands):

	School	
	2007	2006
Operating revenue, gains, and other support:		
Tuition and student program fees	$ 83,844	$ 73,224
Student aid	(20,979)	(17,159)
Tuition and student program fees, net	62,865	56,065
Contributions	2,941	2,762
Other program revenues	4,159	3,967
Investment return designated for current use	5,266	5,010
Auxiliary activities	8,112	6,888
Other	1,279	1,090
Net assets released from restrictions	2,418	5,601
Total operating revenue, gains, and other support	87,040	81,383
Expenses:		
Programs services:		
Other programs	1,500	1,364
Instructional and academic	51,445	48,103
Auxiliary activities	3,267	2,924
Managerial and general:		
General administration	11,767	10,344
Depreciation	6,677	6,278
Interest and debt issuance cost	5,766	6,090
Fund raising	1,647	1,504
Total expenses and losses	82,069	76,607
Change in net assets from operations before building sales and interest rate swap	4,971	4,776
Gain on building sales		143
Gain on interest rate swap		62
Change in net assets from operations	$ 4,971	$ 4,981