The Art Institute of Chicago

Consolidated Financial Statements as of and for the Years Ended June 30, 2006 and 2005, 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:

We have audited the consolidated statements of financial position of The Art Institute of Chicago (the "Institute") as of June 30, 2006 and 2005, 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 financial statements present fairly, in all material respects, the financial position of the Institute as of June 30, 2006 and 2005, 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 a report, dated October 24, 2006, 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 Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 1 to the financial statements, in 2006, the Institute adopted Financial Accounting Standards Board ("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 in accounting principle of $4,933,228.

Deloitte & Touche LLP

October 24, 2006

THE ART INSTITUTE OF CHICAGO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2006 AND 2005
(In thousands)

	2006	2005
Assets:		
Cash and cash equivalents	$ 4,530	$ 4,129
Accounts and investment income receivable	8,517	8,651
Contributions receivable	27,135	23,340
Inventories	3,970	4,971
Prepaid expenses and other assets	4,027	4,843
Asset held for sale		9,222
Building sale receivable	10,033	
Property and equipment	257,129	230,196
Investments	810,626	722,233
Total assets	**$ 1,125,967**	**$ 1,007,585**
Liabilities and net assets:		
Liabilities:		
Accrued interest payable	$ 1,994	$ 2,155
Accounts payable and other liabilities	27,735	22,606
Accrued pension benefit costs	2,452	15,716
Refundable advances	14,341	2,989
Deferred revenues	20,570	6,715
Notes payable	208,258	234,793
Total liabilities	**275,350**	**284,974**
Net assets:		
Unrestricted	228,470	177,643
Temporarily restricted	368,472	315,962
Permanently restricted	253,675	229,006
Total net assets	**850,617**	**722,611**
Total liabilities and net assets	**$ 1,125,967**	**$ 1,007,585**

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, 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 change in accounting principle	(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 STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005
(In thousands)

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 67,565	$	$	$ 67,565
Student aid	(17,175)			(17,175)
Tuition and student program fees, net	50,390	-	-	50,390
Contributions	11,048	18,572	2,269	31,889
Chicago Park District tax	6,925			6,925
Museum admissions	5,891			5,891
Membership dues	5,320			5,320
Special exhibitions, catalogues, and other revenues	756			756
Other program revenues	6,581			6,581
Investment return designated for current use	18,341	9,121	50	27,512
Auxiliary activities	21,231			21,231
Other	2,797			2,797
Net assets released from restrictions	16,272	(16,272)		-
Total operating revenue, gains, and other support	145,552	11,421	2,319	159,292
Expenses and losses:				
Programs services:				
Curatorial, libraries, and collections	25,100			25,100
Special exhibitions	4,182			4,182
Museum education	2,910			2,910
Other programs	3,804			3,804
Instructional and academic	42,975			42,975
Auxiliary activities	14,997			14,997
Managerial and general:				
General administration	18,520			18,520
Depreciation	12,595			12,595
Interest and debt issuance cost	8,619			8,619
Member development	2,131			2,131
Fund raising	6,179			6,179
Total expenses and losses	142,012	-	-	142,012
Change in net assets from operations before interest rate swap	3,540	11,421	2,319	17,280
Gain on interest rate swap	308			308
Change in net assets from operations	**3,848**	**11,421**	**2,319**	**17,588**
Nonoperating revenue, support, gains and losses:				
Proceeds from the sale of art objects		4,383		4,383
Contributions for the purchase of art objects		2,157	82	2,239
Net assets released to fund acquisition of art objects	13,927	(13,927)		-
Investment return designated for art purchases	288	4,156	36	4,480
Acquisition of art objects	(15,982)			(15,982)
Adjustment to reflect minimum pension liability	(10,082)			(10,082)
Investment return in excess of amounts designated for current operations	26,767	12,818	89	39,674
Other transfers	(305)	9	296	-
Total nonoperating revenue, support, gains, and losses	14,613	9,596	503	24,712
Change in net assets	**18,461**	**21,017**	**2,822**	**42,300**
Net assets, beginning of year	159,182	294,945	226,184	680,311
Net assets, end of year	**$ 177,643**	**$ 315,962**	**$ 229,006**	**$ 722,611**

See notes to consolidated financial statements.

THE ART INSTITUTE OF CHICAGO

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 and 2005
(In thousands)

	2006	2005
Cash flows from operating activities:		
Change in net assets	$ 128,006	$ 42,300
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,470	12,595
Retirement of property	43	4
(Gain) loss on sales of property	210	(1)
Adjustments to reflect minimum pension liability	(13,264)	10,082
Change in accounting principle	4,933	
Change in reporting entity	(3,252)	
Contributions restricted for permanently restricted endowment, net	(27,817)	(2,449)
Contributions restricted for capital campaign, net	(49,985)	(8,033)
Net unrealized and realized gains/losses on investments	(60,342)	(59,016)
Acquisitions and sales of art, net	8,325	11,499
Change in assets and liabilities:		
Accounts and investment income receivable	781	2,430
Prepaid expenses, other assets, and inventories	1,827	25
Unrestricted and temporarily restricted contributions receivable	622	(1,690)
Accrued interest payable	(161)	(323)
Accounts payable and other liabilities	(8,338)	(1,298)
Refundable advances	11,352	252
Deferred revenues	1,661	(415)
Net cash provided by operating activities	**7,071**	**5,962**
Cash flows from investing activities:		
Purchases of property and equipment	(36,880)	(15,115)
Proceeds from sales of property	19,279	5
Proceeds from sales of art objects	6,133	4,383
Acquisition of art objects	(14,458)	(15,882)
Proceeds from sales of investments	225,705	274,262
Purchases of investments	(253,756)	(259,079)
Net cash used in investing activities	**(53,977)**	**(11,426)**
Cash flows from financing activities:		
Proceeds from contributions restricted for permanently restricted endowment	20,495	5,097
Decrease in assets restricted for debt service	3	56
Proceeds from capital campaign	52,976	18,074
Payments on notes payable	(32,500)	(43,610)
Proceeds from notes payable	6,100	27,700
Net cash provided by financing activities	**47,074**	**7,317**
Net increase in cash and cash equivalents	**168**	**1,853**
Cash and cash equivalents at the beginning of year	4,129	2,276
Cash and cash equivalents from cumulative effect of change in reporting entity	233	
Cash and cash equivalents at end of year	**$ 4,530**	**$ 4,129**
Supplemental data: Interest paid (net of capitalized interest of $29 and $25) in 2006 and 2005, respectively	$ 8,350	$ 8,238
Supplemental disclosure of noncash items: Property additions included in accounts payable	$ 7,491	$ 4,102

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Art Institute of Chicago ("AIC") is a not-for-profit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. AIC 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

In 2006, 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 change in reporting entity is described 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 either as temporarily restricted or as trustee-designated (unrestricted) 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 thirteen 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 - 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 $2.5 million in 2006 and $2.6 million in 2005. Alternative investments are carried at fair market value based upon market prices when available and, when not available, are carried at estimated fair market value based upon appraisals. Certain alternative investments are carried at the March 31 estimated fair market value and approximate $14.2 million in 2006 and $14.7 million in 2005 and certain alternative investments are carried at the December 31 estimated fair market value and approximate $17 million in 2006 and $3.3 million in 2005. Capital committed to alternative investments, but not yet called, totaled $50.5 million in 2006 and $44.4 million in 2005. 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. 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.

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 changes could materially affect the amounts reported in the financial statements.

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

Special Exhibitions - Museum admissions, gifts and grants, and auxiliary activities, include revenues specific to special exhibitions.

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.

Membership Development Activities - Membership 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 $860,000 in 2006 and $910,000 in 2005. 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 financial statements as in-kind support are offset by like amounts included in expenses or assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 financial statements.

Asset Retirement Obligation - In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation "FIN" No. 47, Accounting for Conditional Asset Retirement Obligations—An Interpretation of FASB Statement No. 143. FIN 47 clarifies the term conditional asset retirement obligation as it is used in Statement of Financial Accounting Standard No. 143, Accounting for Asset Retirement Obligations, and requires a liability to be recorded if the fair value of the obligation to retire an asset can be reasonably estimated. Asset retirement obligations covered by FIN 47 include those for which an entity 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 control of the entity.

In accordance with FIN 47, the Institute records all known asset retirement obligations for which the fair value of the liability can be reasonably estimated. As a result of adopting FIN 47, in 2006 the Institute recorded a cumulative effect of change in accounting principle of $4.9 million, a liability for asset retirement obligation of $5.3 million, accretion expense of $217,000, increased the carrying value of the related assets by $1.7 million less accumulated depreciation of $1.5 million, and depreciation expense of $25,000.

New Accounting Pronouncements

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 September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans". This statement requires institutions to recognize the overfunded or underfunded status of a defined benefited postretirement plan as an asset or liability in its statement of financial position. This statement is effective for financial statements issued as of the end of the fiscal year ending after June 15, 2007. The Institute is currently evaluating the impact of adopting this statement on the consolidated financial statements.

2. INVESTMENTS

Investments at June 30, 2006 and 2005, consist of the following (in thousands):

	2006			
	Pooled	Non-Pooled Investments	Modern Wing and Reinstallation Investments	Total
Cash and cash equivalents	$ 20,062	$ 1,658	$ 75,368	$ 97,088
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	9,447	75,368	759,482
Assets held in trust by others		51,144		51,144
Total investments	$ 674,667	$ 60,591	$ 75,368	$ 810,626

	2005			
	Pooled	Non-Pooled Investments	Modern Wing and Reinstallation Investments	Total
Cash and cash equivalents	$ 18,362	$ 1,090	$ 48,372	$ 67,824
Fixed income securities	135,290	2,563		137,853
Equity securities	272,520	3,965		276,485
Alternative structures	119,270			119,270
Other investments	65,294	1,913		67,207
Total assets held for investment	610,736	9,531	48,372	668,639
Assets held in trust by others		53,594		53,594
Total investments	$ 610,736	$ 63,125	$ 48,372	$ 722,233

2. INVESTMENTS (continued)

Investments by designation at June 30, 2006 and 2005, as a percentage consist of the following:

	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%

	2005			
	Pooled	Non-Pooled Investments	Modern Wing and Reinstallation Investments	Total
Cash and cash equivalents	3.0 %	1.7 %	100.0%	9.4 %
Fixed income securities	22.2	4.1		19.1
Equity securities	44.6	6.3		38.3
Alternative structures	19.5			16.5
Other investments	10.7	3.1		9.3
Total assets held for investment	100.0	15.2	100.0	92.6
Assets held in trust by others		84.8		7.4
Total investments	100.0 %	100.0 %	100.0 %	100.0 %

Alternative structures include marketable and nonmarketable funds. Other investments include real estate, commodities, and other inflation hedge assets. The pooled investments are invested in a widely diversified portfolio.

2. INVESTMENTS (continued)

The changes in fair value of assets held for investment and assets held in trust by others for the year ended June 30, 2006 and 2005, were as follows (in thousands):

	For the year ended 2006				
	Assets Held for Investment				
	Pooled	Non-Pooled	The Modern Wing	Assets Held in Trust	Total
Change in market value:					
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)
Consulting, manager and custody 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

	For the year ended 2005				
	Assets Held for Investment				
	Pooled	Non-Pooled	The Modern Wing	Assets Held in Trust	Total
Change in market value:					
Realized	$ 27,120	$ 2,357	$	$	$ 29,477
Unrealized	27,021	47		2,471	29,539
Dividend and interest income	13,585	238	795	2,048	16,666
Cash gifts and other additions	5,258		23,539		28,797
Transfers (In) Out	(11,937)	(3,448)	(13,562)		(28,947)
Consulting, manager and custody fee	(2,322)				(2,322)
Allocation of spendable funds	(27,173)	(146)		(2,058)	(29,377)
Net change in fair value	31,552	(952)	10,772	2,461	43,833
Fair value, beginning of year	579,184	10,483	37,600	51,133	678,400
Fair value, end of year	$ 610,736	$ 9,531	$ 48,372	$ 53,594	$ 722,233

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, 2006 and 2005. Historical cost exceeds market value for certain gifts by approximately $21,000 and $375,000 at June 30, 2006 and 2005, respectively.

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, 2006 and 2005, 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, 2004, and 2003, respectively. Additions to principal were factored in on a weighted-average basis through June 30, 2006 and 2005. 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, 2006 and 2005, are summarized as follows:

	2006		2005	
	Fair Market Value	Rate of Return	Fair Market Value	Rate of Return
Pooled Endowment Funds Investments	$ 674,667	12.2 %	$ 610,736	11.8 %

The annualized rate of return is net of 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 2006 ranged from 4.1% to 4.4% and for fiscal year 2005 was 3.4%. Contributions receivable are expected to be realized as follows (in thousands):

Collectible during the following periods:	2006	2005
Year one	$ 8,927	$ 10,393
Year two	10,385	5,311
Year three	5,851	5,420
Year four	4,035	3,177
Year five and thereafter	1,296	2,584
Gross contributions receivable	30,494	26,885
Present value discount	(2,609)	(1,685)
Allowance for uncollectible contributions	(750)	(1,860)
Net contributions receivable	$ 27,135	$ 23,340

4. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2006 and 2005, consist of the following (in thousands):

	2006	2005
Land	$ 11,430	$ 15,453
Buildings and improvements	253,511	251,031
Equipment, furniture, and fixtures	21,621	26,120
Total property and equipment	286,562	292,604
Accumulated depreciation	(98,004)	(92,793)
Net depreciable property and equipment	188,558	199,811
Construction in progress	68,571	30,385
Net property and equipment	$ 257,129	$ 230,196

In fiscal year 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 is resolved.

5. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable at June 30, 2006 and 2005, consist of the following (in thousands):

	2006	2005
Accounts payable	$ 18,143	$ 18,974
Asset retirement obligation	5,332	
Accrued salaries and benefits	1,954	1,889
Other liabilities	2,306	1,743
Total accounts payable and other liabilities	$ 27,735	$ 22,606

6. NOTES PAYABLE

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)

Notes payable at June 30, 2005 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 2000A	$ 6,000			3/1/2034	At maturity	Monthly	Weekly	2.35 %
Series 1996	31,700			3/1/2027	At maturity	Monthly	Weekly	2.35 %
Series 1995	22,000			3/1/2027	At maturity	Monthly	Weekly	2.35 %
Series 1992	18,000			3/1/2027	At maturity	Monthly	Weekly	2.35 %
Total Variable/Short-term	77,700	34.8 %	33.2 %					
Medium/Long-term:								
Adjustable Interest Rates								
Demand Revenue								
Tax Exempt Series 2000A	80,800			3/1/2034	At maturity	March 1, September 1	3–10 years	3.10%–4.45%
Taxable Series 2000B	7,100			3/1/2034	At maturity	Monthly	Weekly	3.33 %
Medium Term Revenue:								
Tax-exempt:								
Series 1998A	32,130			3/1/2030	At maturity	March 1, September 1	1–8 years	2.25%–4.85%
Taxable Series 1998B	8,835			3/1/2030	At maturity	March 1, September 1	1–4 years	3.85%–3.90%
Fixed Interest Rates:								
Revenue Refunding:								
Series 2003	16,870			3/1/2023	Varying dates and amounts	March 1, September 1	N/A	2.50%–5.38%
Total Medium/Long-term	145,735	65.2%	62.2%					
Total Bonds	223,435	100.0 %	95.4%					
Bank Debt:								
Northern Trust Term Loan	9,800			6/30/2006	At maturity	Quarterly	N/A	3.26 %
$15 million JPMorgan Chase Line of Credit	-			5/30/2006	On demand	Varying dates	Varying dates	LIBOR+20bps
Total Bank Debt	9,800		4.2%					
Auxiliary activity note	990		0.4%	5/1/2013	On demand	Monthly	N/A	1.09%–4.24%
Total Outstanding Debt	234,225		100.0 %					
Unamortized premium	568							
Total	$ 234,793							

6. NOTES PAYABLE (continued)

The market value of notes payable is approximately $587,000 greater than the carrying value. 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 entered into an interest swap agreement on December 6, 2000, with JPMorgan Chase Bank (formerly known as Bank One). The swap agreement expired on January 1, 2006. It had effectively fixed the interest rate on the 2000B issue at 6.58% and was recorded as a liability with an estimated fair value at June 30, 2005, of $(89,000). At June 30, 2006, the Series 2000B issue is considered variable.

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 $670,000 for the next year, and an additional total of $201,665,000 through the ultimate maturity dates of the bonds. The Institute was in compliance with all debt covenants at June 30, 2006.

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, 2007. As of June 20, 2006, $4.5 million was borrowed against the credit line at a rate of 5.55%. The Institute has secured a $10 million line of credit through JPMorgan Chase Bank for interim financing of construction for The Modern Wing expiring on September 30, 2010. As of June 30, 2006, the line of credit was unused.

7. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Institute has a qualified, noncontributory defined benefit pension plan (the “Plan”) covering staff employees who meet the Plan’s eligibility. 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 statement of financial position at June 30, 2006 and 2005 (in thousands):

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Change in benefit obligation				
Benefit obligation—beginning of year	$ 79,438	$ 62,497	$ 569	$ 650
Service cost	2,598	1,834		
Interest cost	4,146	3,953	22	39
Amendments				
Actuarial loss/ (gain)	(10,758)	13,841	94	(72)
Benefits paid	(2,776)	(2,687)	(100)	(48)
Projected benefit obligation—end of year	$ 72,648	$ 79,438	$ 585	$ 569
Change in plan assets				
Fair value of plan assets—beginning of year	$ 55,711	$ 49,869	$	$
Actual return on plan assets	4,806	4,914		
Employer contribution	5,076	3,615		
Benefits paid	(2,776)	(2,687)		
Fair value of plan assets—end of year	$ 62,817	$ 55,711	$ -	$ -
Funded status	$ (9,831)	$ (23,727)	$ (585)	$ (569)
Unrecognized net actuarial loss (gain)	20,372	34,485	31	(64)
Unrecognized prior service cost (benefit)	(1,730)	(1,947)	(17)	(23)
Net amount recognized	$ 8,811	$ 8,811	$ (571)	$ (656)

Amounts recognized in the statement of financial position as of June 30, 2006 and 2005, consist of the following (in thousands):

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Accrued pension benefit cost	$ (2,452)	$ (15,716)	$ (571)	$ (656)
Additional minimum liability	11,263	24,527		
Net amount recognized	$ 8,811	$ 8,811	$ (571)	$ (656)

7. PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

As of June 30, 2006 and 2005, information for pension plans with an accumulated benefit obligation in excess of plan assets consist of the following (in thousands):

	2006	2005
Projected benefit obligation	$ 72,648	$ 79,437
Accumulated benefit obligation	65,271	71,427
Fair value of plan assets	62,817	55,711

As of June 30, 2006 and 2005, components of net periodic benefit cost consist of the following (in thousands):

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Service cost	$ 2,598	$ 1,834	$	$
Interest cost	4,146	3,953	22	39
Expected return on plan assets	(4,203)	(3,669)		
Amortization of prior service cost	(216)	(216)	(4)	(4)
Amortization of net loss	2,751	1,715	(1)	
Net periodic benefit cost	$ 5,076	$ 3,617	$ 17	$ 35

Additional information as of June 30, 2006 and 2005, consist of the following (in thousands):

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Change in minimum liability in pension expense (in thousands)	$ (13,264)	$ 10,082	N/A	N/A

Assumptions—Weighted-average assumptions used to determine benefit obligations at June 30, 2006 and 2005, are as follows:

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Discount rate	6.40 %	5.25 %	4.25 %	4.25 %
Rate of compensation increase	4.20	4.20	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30, 2006 and 2005, are as follows:

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Discount rate	5.25 %	6.50 %	4.25 %	4.25 %
Expected long-term return on plan assets	7.50	7.50	N/A	N/A
Rate of compensation increase	4.20	4.20	N/A	N/A

7. PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

Assumed health care cost trend rates at June 30, 2006 and 2005, are as follows:

	Other Benefits	
	2006	2005
Health care cost trend rate assumed for next year	9.00 %	10.00 %
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 a significant 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	19	(19)

Plan Assets—The Institute's pension plan weighted-average asset allocations at June 30, 2006 and 2005, by asset category are as follows:

	Pension		
Asset Category	2006	2005	Target Allocation
Cash and cash equivalents	7 %	4 %	2 %
Equity securities	55	54	60
Fixed income securities	38	29	38
Alternative investments	-	7	-
Other	-	6	-
Total	100 %	100 %	100 %

Investment objectives and policies are established by the Institute'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. 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 Institute returns and benchmarking data are also reviewed to ensure a reasonable and appropriate return assumption.

Contributions—The Institute expects to contribute $3,231,000 to its pension plan and $113,000 to its other postretirement benefit plan in 2007.

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
2007	$ 3,231	$ 113
2008	3,408	109
2009	3,534	108
2010	3,737	96
2011	4,014	99
2012 - 2016	24,453	140

Employer contributions to the defined contribution plan totaled $831,000 and $748,000, respectively, for the years ended June 30, 2006 and 2005. Employer contributions to the supplemental retirement plan totaled $156,000 and $35,000, respectively, for the years ended June 30, 2006 and 2005.

8. NATURAL CLASSIFICATION OF EXPENSES

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%

8. NATURAL CLASSIFICATION OF EXPENSES (continued)

Expenses by natural classification for operating activities for the year ended June 30, 2005 are as follows (in thousands):

	Museum	School	Total	% of Total
Salaries and wages	$ 23,525	$ 30,703	$ 54,228	38.2%
Fringe benefits	8,123	9,246	17,369	12.2%
Contracted services	7,401	6,503	13,904	9.8%
Equipment, rental and maintenance	1,636	2,694	4,330	3.0%
Travel and entertainment	1,530	958	2,488	1.8%
Telephone, copy, fax, postage	1,053	903	1,956	1.4%
Supplies, books and subscriptions	1,907	844	2,751	1.9%
Publications and printing	1,757	716	2,473	1.7%
Publicity and promotions	2,183	846	3,029	2.1%
Cost of sales	6,254	840	7,094	5.0%
Utilities	2,193	1,987	4,180	2.9%
Bad debt	12	376	388	0.3%
Interest	2,346	6,273	8,619	6.1%
Depreciation	6,087	6,508	12,595	8.9%
Other	4,630	1,978	6,608	4.7%
Total	$ 70,637	$ 71,375	$ 142,012	100%

9. COMMITMENTS AND CONTINGENCIES

During fiscal 2006, 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 bridge 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 $276.6 million, which the Board plans to finance primarily by contributions to the project. The Board has approved utilizing short-term financing during the construction period until pledge payments are received. The Institute has spent $61.5 million for the addition as of June 30, 2006, 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 is recorded as a refundable advance until such time that the condition has been met.

The Institute is party to various legal proceedings and claims incidental to its business. The 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 entered into lease agreements for academic, office, and storage space and office equipment under operating leases expiring in various years through 2019. Certain operating leases provide for renewal options for periods from five to ten years. Total lease expense was $1,664,000 and $245,000 during the years ended June 30, 2006 and 2005, respectively.

Minimum future lease payments under noncancelable operating leases having remaining terms in excess of one year as of June 30, 2006 are as follows (in thousands):

Year Ending June 30,		
2007	$	1,082
2008		1,536
2009		2,114
2010		1,934
2011		1,822
2012 and thereafter		10,731
Total minimum lease payments	$	19,219

10. RESTRICTIONS ON NET ASSETS

The nature of restrictions on net assets released from donor restrictions during the year ended June 30, 2006 and 2005, are summarized as follows (in thousands):

	2006	2005
Purchase of art objects	$ 14,284	$ 13,927
Purchase of books	673	866
Student aid	6,791	2,849
Museum exhibitions	1,159	1,760
Museum publications	621	716
Gallery maintenance, professorships, and curatorships	1,365	1,567
Facilities	4,842	4,619
Education, instruction, and other	560	3,895
Total	$ 30,295	$ 30,199

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

Net assets categorized by donor restrictions as of June 30, 2005, are summarized as follows (in thousands):

	Temporarily Restricted	Permanently Restricted
Purchase of art objects	$ 87,841	$ 31,749
Purchase of books	222	1,634
Student aid	17,488	15,901
Museum exhibitions	3,455	10,385
Museum publications	6,039	1,510
Gallery maintenance, professorships, and curatorships	1,280	48,992
Facilities	84,894	
Education, instruction, and other	96,287	37,552
Time-restricted net assets/assets held in trust by others	18,456	53,810
General purposes		27,473
Total	$ 315,962	$ 229,006

11. AIC STATEMENTS OF ACTIVITIES (continued)

AIC statement of activities for the year ended 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, 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	**53,757**	**49,211**	**24,669**	**127,637**
Cumulative effect of change in accounting principle	(4,933)			(4,933)
Cumulative effect of change in reporting entity				-
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**

11. AIC STATEMENTS OF ACTIVITIES

Unrestricted activity for Museum programs for the years 2006 and 2005, are as follows (in thousands):

	Museum	
	2006	2005
Operating revenue, gains, and other support:		
Contributions	$ 10,670	$ 9,119
Chicago Park District tax	6,924	6,925
Museum admissions	6,875	5,891
Membership dues	5,090	5,320
Special exhibitions	554	756
Other program revenues	3,919	3,670
Investment return designated for current use	13,287	12,444
Auxiliary activities	16,067	14,433
Other	949	880
Net assets released from restrictions	11,410	13,130
Total operating revenue, gains, and other support	75,745	72,568
Expenses and losses:		
Programs services:		
Curatorial, libraries, and collections	24,790	25,100
Special exhibitions	4,061	4,182
Museum education	3,136	2,910
Other programs	4,100	2,022
Auxiliary activities	13,568	12,269
Managerial and general:		
General administration	8,516	9,005
Depreciation	6,044	6,030
Interest and debt issuance cost	2,492	2,345
Member development	1,249	2,131
Fund raising	4,364	4,643
Total expenses and losses	72,320	70,637
Change in net assets from operations before building sales and interest rate swap	3,425	1,931
Loss on building sales	(353)	
Gain on interest rate swap	27	88
Change in net assets from operations	$ 3,099	$ 2,019

11. AIC STATEMENTS OF ACTIVITIES (continued)

Unrestricted activity for School programs for the years 2006 and 2005, are as follows (in thousands):

	School	
	2006	2005
Operating revenue, gains, and other support:		
Tuition and student program fees	$ 73,224	$ 67,565
Student aid	(17,159)	(17,175)
Tuition and student program fees, net	56,065	50,390
Contributions	2,762	1,929
Other program revenues	3,967	2,911
Investment return designated for current use	5,010	5,897
Auxiliary activities	6,888	6,798
Other	1,090	1,917
Net assets released from restrictions	5,601	3,142
Total operating revenue, gains, and other support	81,383	72,984
Expenses:		
Programs services:		
Other programs	1,364	1,782
Instructional and academic	48,103	42,975
Auxiliary activities	2,924	2,728
Managerial and general:		
General administration	10,344	9,515
Depreciation	6,278	6,565
Interest and debt issuance cost	6,090	6,274
Fund raising	1,504	1,536
Total expenses and losses	76,607	71,375
Change in net assets from operations before building sales and interest rate swap	4,776	1,609
Gain on building sales	143	
Gain on interest rate swap	62	220
Change in net assets from operations	$ 4,981	$ 1,829

12. CHANGE IN REPORTING ENTITY

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. As the balances are not material to the 2005 financial statements, AIC has consolidated the results of Ox-Bow effective July 1, 2005. The opening net asset balance and cash balance has been included in the 2006 statement of financial position and statement of cash flows as a cumulative effect of change in reporting entity, respectively. Inter-entity transactions and balances have been eliminated in consolidation.

The consolidating financial statements as of and for the year ended June 30, 2006, are as follows:

THE ART INSTITUTE OF CHICAGO

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2006
(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
Property and equipment	252,005	5,124		257,129
Investments	810,626			810,626
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
Accrued pension benefit costs	2,452			2,452
Refundable advances	14,341			14,341
Deferred revenues	20,461	109		20,570
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**

THE ART INSTITUTE OF CHICAGO

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006
(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, 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 change in accounting principle	(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**

13. 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. 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 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, 2006 and 2005 is $191,000 and $196,000, respectively.

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