Financial Statements, Supplementary Information, and Report of Independent Certified Public Accountants

The Art Institute of Chicago

June 30, 2021 and 2020

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
The Art Institute of Chicago

We have audited the accompanying financial statements of The Art Institute of Chicago (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Art Institute of Chicago as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating activities and schedules of expenses by natural classification for the years ended June 30, 2021 and 2020, are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Grant Thornton LLP

Chicago, Illinois
October 28, 2021

The Art Institute of Chicago

STATEMENTS OF FINANCIAL POSITION

June 30,
(in thousands)

	2021	2020
ASSETS		
Cash and cash equivalents	$ 59,302	$ 39,555
Accounts and investment income receivable, net	8,330	10,504
Contributions receivable, net	63,118	88,617
Inventories, prepaid expenses and other assets	6,186	7,199
Investments	1,458,199	1,113,918
Right-of-use assets	45,605	-
Property and equipment, net	383,023	405,878
Collections (Note 1)	-	-
Total assets	$ 2,023,763	$ 1,665,671
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	$ 47,931	$ 34,735
Deferred revenues	12,943	12,356
Refundable advances	3,361	4,180
Pension liability	13,969	46,661
Operating lease liability	50,417	-
Bonds and notes payable	141,910	154,220
Total liabilities	270,531	252,152
NET ASSETS		
Without donor restrictions	632,736	479,698
With donor restrictions	1,120,496	933,821
Total net assets	1,753,232	1,413,519
Total liabilities and net assets	$ 2,023,763	$ 1,665,671

The accompanying notes are an integral part of these financial statements.

The Art Institute of Chicago

STATEMENT OF ACTIVITIES

Year ended June 30, 2021
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and other support			
Tuition and fees (net of $45,868 student aid)	$ 106,775	$ -	$ 106,775
Contributions	19,545	38,521	58,066
Chicago Park District	5,171	-	5,171
Museum admissions	5,245	-	5,245
Membership dues	7,661	-	7,661
Other program revenues and miscellaneous	2,136	-	2,136
Investment return designated for current use	17,121	33,269	50,390
Auxiliary activities	12,374	-	12,374
Net assets released from restrictions	57,540	(57,540)	-
Total operating revenue and other support	233,568	14,250	247,818
Operating expenses			
Program services			
Instructional and academic	90,499	-	90,499
Curatorial, libraries and collections	34,638	-	34,638
Special exhibitions	2,693	-	2,693
Museum education	1,995	-	1,995
Other programs	4,180	-	4,180
Auxiliary activities	10,569	-	10,569
Total program services	144,574	-	144,574
Management and general			
General administration	29,270	-	29,270
Interest and debt cost amortization	4,414	-	4,414
Total management and general	33,684	-	33,684
Fundraising and member development	11,336	-	11,336
Total operating expenses	189,594	-	189,594
Change in net assets from operations	43,974	14,250	58,224
Non-operating items			
Proceeds from the sale of art objects	-	22,709	22,709
Acquisition of art objects	(31,038)	-	(31,038)
Contributions for the purchase of art objects	-	2,373	2,373
Net assets released to fund acquisition of art objects	30,769	(30,769)	-
Investment return designated for art purchases	344	4,098	4,442
Contributions for capital and equipment	-	184	184
Net assets released for capital and equipment placed in service	438	(438)	-
Depreciation expense	(24,585)	-	(24,585)
Gain on sale of property	11,805	-	11,805
Pension-related changes other than employer service cost	35,636	-	35,636
Investment return in excess of amounts designated for current operations and art purchases	85,998	173,965	259,963
Other transfers	(303)	303	-
CHANGE IN NET ASSETS	153,038	186,675	339,713
Net assets, beginning of year	479,698	933,821	1,413,519
Net assets, end of year	$ 632,736	$ 1,120,496	$ 1,753,232

The accompanying notes are an integral part of this financial statement.

The Art Institute of Chicago

STATEMENT OF ACTIVITIES

Year ended June 30, 2020
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and other support			
Tuition and fees (net of $49,878 student aid)	$ 128,027	$ -	$ 128,027
Contributions	21,420	38,991	60,411
Chicago Park District	5,633	-	5,633
Museum admissions	13,574	-	13,574
Membership dues	10,131	-	10,131
Other program revenues and miscellaneous	6,250	-	6,250
Investment return designated for current use	18,944	31,469	50,413
Auxiliary activities	20,869	-	20,869
Net assets released from restrictions	36,661	(36,661)	-
Total operating revenue and other support	261,509	33,799	295,308
Operating expenses			
Program services			
Instructional and academic	102,866	-	102,866
Curatorial, libraries and collections	41,467	-	41,467
Special exhibitions	4,605	-	4,605
Museum education	3,571	-	3,571
Other programs	6,232	-	6,232
Auxiliary activities	14,903	-	14,903
Total program services	173,644	-	173,644
Management and general			
General administration	34,293	-	34,293
Interest and debt cost amortization	6,010	-	6,010
Total management and general	40,303	-	40,303
Fundraising and member development	12,877	-	12,877
Total operating expenses	226,824	-	226,824
Change in net assets from operations	34,685	33,799	68,484
Non-operating items			
Proceeds from the sale of art objects	-	6,334	6,334
Acquisition of art objects	(16,480)	-	(16,480)
Contributions for the purchase of art objects	-	6,273	6,273
Net assets released to fund acquisition of art objects	15,952	(15,952)	-
Investment return designated for art purchases	330	3,987	4,317
Contributions for capital and equipment	-	11,565	11,565
Net assets released for capital and equipment placed in service	789	(789)	-
Depreciation expense	(25,930)	-	(25,930)
Pension-related changes other than employer service cost	(15,057)	-	(15,057)
Investment return in excess of (less than) amounts designated for current operations and art purchases	(8,377)	(11,754)	(20,131)
Other non-operating	752	-	752
Other transfers	1,111	(1,111)	-
CHANGE IN NET ASSETS	(12,225)	32,352	20,127
Net assets, beginning of year	491,923	901,469	1,393,392
Net assets, end of year	$ 479,698	$ 933,821	$ 1,413,519

The accompanying notes are an integral part of this financial statement.

The Art Institute of Chicago

STATEMENTS OF CASH FLOWS

Years ended June 30,
(in thousands)

	2021	2020
Cash flows from operating activities		
Change in net assets	$ 339,713	$ 20,127
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	24,275	25,416
Gain on debt defeasance	-	(162)
Gain on sale of property	(11,805)	-
Loss on retirement of property	191	7
Change in pension liability	(32,692)	18,127
Contributions restricted for permanent endowment	(914)	(2,502)
Contributions restricted for capital, net	(104)	(11,410)
Other losses and write offs	(544)	-
Net unrealized and realized gains on investments	(309,413)	(26,198)
Acquisitions and sales of art, net	8,329	10,146
Change in assets and liabilities		
Accounts and investment income receivable	2,174	(1,554)
Inventories, prepaid expenses and other assets	1,013	216
Contributions receivable	(4,445)	1,825
Accounts payable and other liabilities	(2,144)	(9,731)
Refundable advances	(819)	(140)
Deferred revenues	5,399	(3,213)
Net cash provided by operating activities	18,214	20,954
Cash flows from investing activities		
Purchases of property and equipment	(6,168)	(10,586)
Proceeds from sale of property	16,894	-
Proceeds from sales of art objects	22,709	6,334
Acquisition of art objects	(16,540)	(18,017)
Proceeds from sales of investments	150,185	118,886
Purchases of investments	(174,774)	(107,651)
Net cash used in investing activities	(7,694)	(11,034)
Cash flows from financing activities		
Proceeds from contributions restricted for permanent endowment	15,912	4,259
Proceeds from contributions restricted for capital	5,315	4,078
Cost of issuance on new debt	-	(196)
Payments on notes payable	(12,000)	(103,380)
Proceeds from notes payable	-	93,500
Net cash provided by (used in) financing activities	9,227	(1,739)
CHANGE IN CASH AND CASH EQUIVALENTS	19,747	8,181
Cash and cash equivalents, at the beginning of year	39,555	31,374
Cash and cash equivalents, at the end of year	$ 59,302	$ 39,555
Supplemental disclosure of noncash items		
Cash paid for interest	$ 4,265	$ 7,251
Property and art purchase additions included in accounts payable	$ 19,513	$ 4,889
Cash paid for amounts included in the measurement of lease obligations	$ 2,168	-

The accompanying notes are an integral part of these financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America ("US GAAP").

The Institute's resources are classified for accounting and reporting purposes into two categories of net assets, without donor restrictions or with donor restrictions, according to external donor-imposed restrictions and consistent with relevant law:

- *Without donor restrictions* - Net assets that are not subject to donor-imposed restrictions of a more specific nature than those that only obligate the Institute to utilize funds in furtherance of its mission. Revenues received and expenses incurred in conducting the programs and services of the Institute are presented in the financial statements as net assets without donor restrictions. By action of the Board of Trustees of the Institute (the "Board") or its designee, certain net assets without donor restrictions have been designated for long-term investment or other special purposes.

- *With donor restrictions* - Net assets with donor restrictions carry specific donor-imposed restrictions on the expenditure or other use of contributed funds. Such restrictions may expire either because of the passage of time or because the Institute has fulfilled the restrictions. Expiration of restrictions on net assets with donor restrictions are reported as net assets released from restrictions. By action of the Board or its designee, certain donor restricted assets have been designated for long-term investment in the endowment fund. Also included in this category are net assets subject to donor-imposed restrictions that will never lapse and thus are restricted to long-term investment and maintained permanently as endowment funds. The portion of the donor-restricted endowment funds classified as with donor restrictions includes the original value of the assets contributed to the permanent endowment funds, subsequent contributions to such funds valued at the date of contribution, and earnings on such funds that have not been appropriated for expenditure and spent on the restricted purpose of the fund.

Collections

The value of the art objects in the permanent collection, and the holdings of the libraries, are excluded from the statements of financial position. Additions to the permanent collection are made either by gifts, bequests, or through purchases using Institute acquisition funds. Institute acquisition funds may be classified as with donor restrictions, in which either (i) the principal balance is to be held in perpetuity and only the income earned on principal balances may be used for acquisitions, or (ii) both the principal and earned income may be used for acquisitions; or without donor restrictions, representing funds designated by the Board to be used for acquisitions.

The withdrawal of works of art from the collection of the Institute is performed in accordance with a formal policy initially adopted in 1975 and last revised in fiscal year 2020. The objects are generally offered for sale at a public auction and the proceeds from such dispositions are classified as with donor restrictions.

Proceeds from the sale of collection items are used to purchase or commission works of art for the permanent collection or for the direct care of objects within its permanent collection. Direct care of the collection means investing in objects in the Museum's permanent collection by enhancing their life, usefulness, or quality, thereby ensuring they will continue to benefit the public. Direct care includes, but is not limited to, maintenance and protection, conservation, and management of the collection. All works of art and certain library collections are held for public exhibition, education, or research; they are protected, kept unencumbered, cared for, and preserved, and are subject to strict organizational policies governing their use. The value of the Institute's permanent collection is not subject to reasonable estimation. Therefore, it is not included in the statements of financial position.

Cash and Cash Equivalents

Cash includes currency on hand, as well as demand deposits with banks or financial institutions. The Institute maintains its cash balances in various bank deposit accounts, which, at times, may exceed Federal Deposit Insurance Corporation limits. The Institute believes it is not exposed to any significant credit risk on cash balances. Cash equivalents are stated at cost and consist of institutional money market funds or bank deposits. Cash equivalents held by long-term investment managers are classified as investments; see Note 2 for further discussion.

Contributions Receivable

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

Inventories, Prepaid Expenses and Other Assets

Inventories are stated at average cost based upon the moving-average cost method. Prepaid expenses include expenditures for rent and software or other licenses made in advance of the term of the services provided. Other assets primarily include art inventory donated to serve as a study collection for students of the School.

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; as such, the original cost of the facility and land is not reflected in the financial statements.

The Institute owns properties that provide instructional, public programming, administrative, storage, and student housing space. Portions of some of these facilities are leased to others. The land, buildings, building improvements, and related equipment, furniture, and fixtures are stated at cost, net of depreciation.

Depreciable assets are depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation expense, contributions for capital and equipment, and net assets released for capital and equipment placed in service are classified within non-operating items in the statements of activities.

Buildings constructed prior to 2005 on Grant Park property have a useful life of 50 years; the purchase, completed construction, and major improvements of all other buildings have a useful life of 40 years.

Subsequent building improvements have useful lives ranging from 5 to 31.5 years. Equipment, furniture, and fixtures have useful lives ranging from 3 to 10 years.

Leases

The Institute has operating and financing lease agreements for academic, residential, and storage space and office equipment expiring in various years through 2036. Certain operating leases provide for renewal options for periods from one to 10 years. In some cases, the Institute is required to make additional payments under facility operating leases for taxes, insurance and other operating expenses incurred during the operating lease period. The Institute determines if a contract contains a lease when the contract conveys the right to control the use of identified property or equipment for a period of time in exchange for consideration. Upon such identification and commencement of a lease, the Institute establishes a right-of use ("ROU") asset and a lease liability in the statement of financial position if the lease term exceeds one year.

A lease component is defined as an asset within the lease contract that a lessee can benefit from the use of and is not highly dependent or interrelated with other assets in the arrangement. The Institute has determined that all of its leases contain one lease component related to the buildings or office equipment.

The lease liability represents future fixed lease payments for leases, discounted for present value. Certain leases contain rent escalation clauses that are specifically stated in the lease, which are included in the calculation of the lease liability.

The ROU asset consists of the amount of the initial measurement of the lease liability adjusted for any lease incentives, including rent abatements and tenant improvement allowances, and any initial direct costs incurred by the lessee. The ROU asset is amortized over the remaining lease term.

The lease term is determined by taking into account the initial period as stated in the lease contract and adjusted for any renewal options that the Institute is reasonably certain to exercise, as well as any period of time that the lessee has control of the space before the stated initial term of the lease.

The Institute uses the estimated incremental borrowing rate of return when calculating the lease liability and related ROU asset.

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

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

Purchases and sales of investments are recorded on trade dates and realized and unrealized gains and losses are determined on the basis of average cost of securities. Realized and unrealized appreciation or depreciation in the carrying value of investments is classified as part of either net assets without donor restrictions or net assets with donor restrictions in accordance with applicable donor and legal requirements.

Pension Liability

The Institute sponsors an employer-defined benefit plan; the underfunded status of the plan is recognized as a liability in the statements of financial position. The Institute measures plan assets and benefit obligations as of the date of the Institute's fiscal year end.

Revenue Recognition

The Institute recognizes revenue upon delivery of goods or services in amounts that reflect the consideration the Institute expects to receive in exchange for those goods or services. The Institute's revenue streams that fall under this guidance are derived primarily from tuition and student program fees, museum admissions, membership dues, auxiliary activities and proceeds from the sale of art objects.

- *Tuition and Student Program Fees* are generally collected in advance of or early in the School term and are initially recorded as deferred revenue. Tuition and fees are recognized ratably as revenue over the related School term. Generally, the Institute offers refunds for classes to students who decide to withdraw from a course prior to the add/drop date. After the add/drop date, generally no refunds are granted unless exceptional circumstances apply. The Institute does not recognize revenue until after the add/drop date. Historically, the Institute has not made material refunds after the add/drop date.

- *Museum Admissions* revenue is recognized as visitors obtain access to the Museum.

- *Museum Membership* revenue is collected at the commencement of the membership period and allows the member unlimited visits to the Museum over the course of the membership period. Accordingly, membership revenue is deferred and recognized as revenue in equal monthly amounts during the applicable membership period.

- *Auxiliary Activities* are primarily related to School residence halls and the Museum retail shop operation. Payment of School housing fees is made in advance of occupancy, and revenues from residence halls are recognized ratably over the period of stay. For the years ended June 30, 2021 and 2020, $7.4 million and $11.2 million, respectively, was recognized as residence hall revenue. Museum shop revenue is presented net of discounts and recognized when products are sold. Sales taxes collected from customers are excluded from revenues and the obligation is included in accrued liabilities until the taxes are remitted to the appropriate taxing authorities. For the years ended June 30, 2021 and 2020, $4.1million and $6.8 million, respectively, was recognized as museum shop revenues.

- *Proceeds from the Sale of Art Objects* are recognized when the artwork is sold and are classified as non-operating revenues. For the years ended June 30, 2021 and 2020, $22.7 million and $6.3 million, respectively, was recognized as proceeds from the sale of art objects.

- With the exception of memberships, which can be for a period of one or two years, all of the Institute's revenue from contracts with customers are from performance obligations with an initial expected duration of one year or less. Prices are specific to a distinct performance obligation and do not consist of multiple transactions.

The Institute records deferred revenue in situations when amounts are collected, but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met. Deferred revenues of $12.2 million and $8.7 million, as of June 30, 2021 and 2020, respectively, are classified as liabilities on the statements of financial position and primarily relate to prepaid membership and summer tuition. Associated accounts receivable for revenue from tuition and housing fees as of June 30, 2021 and 2020, were $5.4 million and $5.1 million, respectively, and allowance for doubtful accounts for tuition revenues as of June 30, 2021 and 2020, were $2.7 million and $2.6 million, respectively.

Apart from what was previously disclosed, the Institute did not record any impairment or credit losses, incremental costs or significant financing components for the years ended June 30, 2021 and 2020, and there were no significant changes in the judgments affecting the determination of the amount and timing of revenue recognized from revenue streams falling under this guidance.

Additionally, the Institute has revenue streams that are not within the scope of Accounting Standards Codification ("ASC") ASC 606, *Revenue from Contracts with Customers*, as follows:

- Contributions revenue includes gifts from donors and revenue from government-funded programs. Gifts from individual donors, foundations, and other organizations are recognized when received. Contributions received with restrictions imposed by the donor are classified as net assets with donor restrictions. Unconditional promises to give are recorded as revenue and contributions receivable when received at the net present value of the amounts expected to be collected. Government-funded programs are supported by grants received from the federal, state, and local governments. These grants are considered conditional contributions, and revenue recognition is deferred until the applicable barriers are met. Some of the government funded program revenue is from cost-reimbursable grants which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when expenditures have been incurred that are in compliance with the specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. No amounts have been received in advance under federal and state contracts and grants as of June 30, 2021 and 2020. The Institute was awarded cost-reimbursable grants of $6,096,269 and $2,299,274 that have not been recognized at June 30, 2021 and 2020 because qualifying expenditures have not yet been incurred.

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

- Investment returns consist of unrealized and realized gains and losses on investments, dividend and interest income, net of investment management fees. Realized gains and losses are recognized when the investment is sold. Unrealized gains and losses are recognized based upon year-end valuation of investments.

Income Taxes

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

The Financial Accounting Standards Board ("FASB") guidance requires tax effects from uncertain tax positions to be recognized only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined there are no material uncertain positions that require recognition in the financial statements. No provision was necessary for the Institute for unrelated business income taxes as the organization has a net operating loss carryforward to cover any current year tax liability.

Other Transfers

The Institute records reclassifications between net asset categories as other transfers. Other transfers primarily consist of transfers due to donor clarification on previously undetermined restrictions.

Commitments and Contingencies

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

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*. The guidance requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the statement of financial position for both operating and capital leases. The Institute adopted ASU 2016-02 for the year ended June 30, 2021 using the modified retrospective method, resulting in the recognition of a ROU asset of $45.6 million and a lease liability of $50.4 million. The statement of activities was not materially impacted by the adoption of this standard.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 modifies certain disclosures related to investments in that calculate net asset value ("NAV") and Level 3 fair value measurements. The Institute adopted the guidance in fiscal year 2021, with retrospective application to the prior reporting period.

Accounting Pronouncements Not Yet Adopted

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This guidance requires separate presentation of and additional disclosures about the recognition, valuation and use of contributed nonfinancial assets. The guidance is effective for the Institute's fiscal year 2022 financial statements. The Institute is currently evaluating the impact of adopting this standard.

Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosures of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior-year balances to conform to current year presentation.

Subsequent Events

The Institute evaluated activity through October 28, 2021, the date the financial statements were issued, and concluded that no other subsequent events have occurred that would require recognition or that have not been disclosed elsewhere.

NOTE 2 - INVESTMENTS

Investments as of June 30, 2021 and 2020, consist of the following (in thousands):

	2021					
	Pooled		Non Pooled Investments		Total	
Cash equivalents	$ 135,327	9.7%	$ 1,595	2.3%	$ 136,922	9.4%
Fixed-income securities	60,633	4.4	5,450	7.9	66,083	4.5
Equity securities	682,646	49.1	6,218	9.0	688,864	47.2
Hedge funds	305,410	22.0	-	-	305,410	21.0
Venture capital and private equity	143,418	10.3	-	-	143,418	9.9
Real assets	61,742	4.5	-	-	61,742	4.2
Total assets held for investment	1,389,176	100.0	13,263	19.2	1,402,439	96.2
Assets held in trust by others	-	-	55,760	80.8	55,760	3.8
Total investments	$1,389,176	100.0%	$ 69,023	100%	$ 1,458,199	100.0%

	2020					
	Pooled		Non Pooled Investments		Total	
Cash equivalents	$ 90,033	8.5%	$ 1,084	1.9%	$ 91,117	8.2%
Fixed-income securities	58,423	5.5	5,085	8.9	63,508	5.7
Equity securities	532,331	50.4	5,211	9.2	537,542	48.3
Hedge funds	241,108	22.8	-	-	241,108	21.6
Venture capital and private equity	93,458	8.8	-	-	93,458	8.4
Real assets	41,704	4.0	-	-	41,704	3.7
Total assets held for investment	1,057,057	100.0	11,380	20.0	1,068,437	95.9
Assets held in trust by others	-	-	45,481	80.0	45,481	4.1
Total investments	$ 1,057,057	100.0%	$ 56,861	100.0%	$ 1,113,918	100.0%

Cash equivalents included in long-term investments may consist of short-term U.S. Treasury obligations, high-grade commercial paper, certificates of deposit, or money market funds. Equity and fixed-income securities consist of marketable securities invested directly or indirectly via mutual funds, separately managed accounts, institutional commingled vehicles, or hedge funds with marketable underlying investments. Hedge fund investments are invested in a variety of strategies. Underlying investments in these funds may include equities, fixed-income securities, commodities, currencies, or derivatives. Venture capital and private equity investments consist of limited partnerships invested in a variety of strategies. Underlying investments in these funds may include private equity and private debt. Real assets consist of real estate, oil and gas, and commodity investments invested via mutual funds, institutional commingled funds, hedge funds, or limited partnerships.

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

The changes in fair value of assets held for investment and assets held in trust by others as of June 30, 2021 and 2020 are as follows (in thousands):

	2021			
	Assets Held for Investment		Assets Held	
	Pooled	Non Pooled	in Trust	Total
Change in fair value:				
Realized gains	$ 48,819	699	$ -	$ 49,518
Unrealized gains	258,723	1,172	-	259,895
Dividend and interest income	5,343	200	2,178	7,721
Cash gifts and other additions	19,364	-	10,279	29,643
Transfers in	55,132	17	-	55,149
Investment management fees	(2,800)	(13)	-	(2,813)
Allocation of spendable funds	(52,462)	(192)	(2,178)	(54,832)
Net change in fair value	332,119	1,883	10,279	344,281
Fair value, beginning of year	1,057,057	11,380	45,481	1,113,918
Fair value, end of year	$ 1,389,176	$ 13,263	$ 55,760	$ 1,458,199

	2020			
	Assets Held for Investment		Assets Held	
	Pooled	Non Pooled	in Trust	Total
Change in fair value:				
Realized gains	$ 24,549	$ 262	$ -	$ 24,811
Unrealized gains	808	457	-	1,265
Dividend and interest income	7,907	228	2,137	10,272
Cash gifts and other additions	26,412	-	(1,131)	25,281
Transfers in	10,009	132	-	10,141
Investment management fees	(3,189)	(19)	-	(3,208)
Allocation of spendable funds	(52,375)	(218)	(2,137)	(54,730)
Net change in fair value	14,121	842	(1,131)	13,832
Fair value, beginning of year	1,042,936	10,538	46,612	1,100,086
Fair value, end of year	$ 1,057,057	$ 11,380	$ 45,481	$ 1,113,918

Realized and unrealized gains and investment income, net of management fees, are reported in the financial statements as investment return designated for current use, investment return designated for art purchases, and investment return in excess of amounts designated for current operations and art purchases in the statements of activities for the years ended June 30, 2021 and 2020.

The annualized rate of return is net of investment manager fees and is computed using monthly net returns of individual investment managers. The fair values (in thousands) and the rates of investment return on the pooled investments for the years ended June 30, 2021 and 2020, are summarized as follows:

	2021		2020	
	Fair Value	Rate of Return	Fair Value	Rate of Return
Pooled endowment funds investments	$ 1,389,176	29.6%	$1,057,057	3.2%

ASC 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. Inputs are broadly defined under ASC 820 as assumptions market participants would use in pricing an asset or liability.

The three levels of the fair value hierarchy under ASC 820 are described below:

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

Level 2 - Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. Investments that are generally included in this category are corporate bonds and institutional commingled funds; and

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

In accordance with ASC 820, investments measured at the NAV per share or equivalent are not categorized within the fair value hierarchy. The Institute’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The valuation techniques used by the Institute to measure different financial instruments at fair value are described below:

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

Investments in limited partnerships are valued at fair value based on the applicable percentage ownership of the investment partnerships' net assets as of the measurement date. In determining fair value, management utilizes valuations provided by the investment partnerships. The estimated fair values of certain investments of the investment partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective investment partnerships and may not reflect amounts that could be realized upon immediate sale nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a readily available market existed for these investments. Management obtains and considers the fund's audited financial statements when evaluating the overall reasonableness of the recorded value. Audited information is typically available annually, based on the partnerships' or funds' year-ends. Investments in private limited partnerships are valued based on the June 30 partner capital account balances as reported by the partnership to the Institute or as estimated by the Institute based on capital markets or other methods deemed appropriate.

The Institute's investments are classified as follows, based on fair values, as of June 30, 2021 (in thousands):

	2021				
	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Pooled investments					
Cash equivalents	$ -	$ 135,327	$ -	$ -	$ 135,327
Fixed-income securities	-	60,633	-	-	60,633
Equity securities	568,450	114,196	-	-	682,646
Hedge funds	305,410	-	-	-	305,410
Venture capital and private equity	143,418	-	-	-	143,418
Real assets	54,203	7,539	-	-	61,742
Total pooled investments	1,071,481	317,695	-	-	1,389,176
Non pooled investments					
Cash equivalents	-	1,595	-	-	1,595
Fixed-income securities	-	2,244	3,206	-	5,450
Equity securities	-	6,218		-	6,218
Assets held in trust by others	-	-	-	55,760	55,760
Total non pooled investments	-	10,057	3,206	55,760	69,023
Total investments	$ 1,071,481	$ 327,752	$ 3,206	$ 55,760	$ 1,458,199

The Institute's investments are classified as follows, based on fair values, as of June 30, 2020 (in thousands):

	2020				
	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Pooled investments					
Cash equivalents	$ -	$ 90,033	$ -	$ -	$ 90,033
Fixed-income securities	-	58,423	-	-	58,423
Equity securities	426,284	106,047	-	-	532,331
Hedge funds	241,108	-	-	-	241,108
Venture capital and private equity	93,458	-	-	-	93,458
Real assets	38,865	2,839	-	-	41,704
Total pooled investments	799,715	257,342	-	-	1,057,057
Non pooled investments					
Cash equivalents	-	1,084	-	-	1,084
Fixed-income securities	-	2,052	3,033	-	5,085
Equity securities	-	5,211	-	-	5,211
Assets held in trust by others	-	-	-	45,481	45,481
Total non pooled investments	-	8,347	3,033	45,481	56,861
Total investments	$ 799,715	$ 265,689	$ 3,033	$ 45,481	$ 1,113,918

The unfunded commitments, redemption frequency, and redemption notice period of the pooled investments held at NAV or its equivalent are as follows as of June 30, 2021 and 2020 (in thousands):

	2021				
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	Lockup or Gate
Equity securities	$ 568,450	N/A	Daily-Annually	1-150 Days	One fund subject to a 3 year lockup
Hedge funds	305,410	$ 29,325	Monthly-Annually	30-95 Days	One fund subject to 20% limit of the value of the gross assets
Venture capital and private equity	143,418	81,643	N/A	N/A	As directed by investment manager
Real assets	54,203	42,270	N/A	N/A	As directed by investment manager
Total	$ 1,071,481	$ 153,238			

	2020				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Lockup or Gate
Equity securities	$ 426,284	N/A	Daily-Annually	1-150 Days	One fund subject to a 3 year lockup
Hedge funds	241,108	$ 25,204	Monthly-Biennially	30-95 Days	None
Venture capital and private equity	93,458	52,375	N/A	N/A	As directed by investment manager
Real assets	38,865	53,494	N/A	N/A	As directed by investment manager
Total	$ 799,715	$ 131,073			

NOTE 3 - ENDOWMENT FUNDS

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

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation and was adopted by the State of Illinois.

The Board has interpreted the State of Illinois' UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies the following as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate endowment funds:

(1) The duration and preservation of the fund;

(2) The mission of the Institute and the purposes of the donor-restricted endowment fund;

(3) General economic conditions;

(4) The possible effects of inflation and deflation;

(5) The expected total return from income and appreciation of investments;

(6) Other resources of the Institute; and

(7) The investment policies of the Institute.

From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts. When donor endowment deficits exist, they are classified as a reduction of net assets with donor restrictions. As of June 30, 2021, no donor endowment funds had a fair value below the initial and subsequent gift total. As of June 30, 2020, funds with original gift values totaling $6.9 million were "underwater" by $226,000.

The Institute's endowment net asset composition (including pledges) as of June 30, 2021 and 2020, is as follows (in thousands):

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Historical value of gifts to be held in perpetuity	$ -	$ 506,703	$ 506,703
Term endowments	-	22,257	22,257
Appreciation	-	441,508	441,508
Board-designated endowment funds	474,680	22,131	496,811
Total funds	$ 474,680	$ 992,599	$ 1,467,279

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Historical value of gifts to be held in perpetuity	$ -	$ 490,585	$ 490,585
Term endowments	-	22,257	22,257
Appreciation	-	273,314	273,314
Board-designated endowment funds	336,443	17,879	354,322
Total funds	$ 336,443	$ 804,035	$ 1,140,478

Board-designated endowment funds were designated for the following purposes as of June 30, 2021 and 2020 (in thousands):

	2021	2020
Purchase of art objects	$ 9,146	$ 7,449
Purchase of books	1,473	1,199
Student aid	36,393	29,515
Museum exhibitions	8,925	7,258
Gallery maintenance, professorships and curatorships	29,508	22,018
Acquisitions or improvements of long-lived assets	23,362	14,551
Education, instruction, and other departmental purpose	85,851	46,119
General purpose	302,153	226,213
Total	$ 496,811	$ 354,322

Changes in endowment net assets for the year ended June 30, 2021, are as follows (in thousands):

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 336,443	$ 804,035	$ 1,140,478
Investment return	103,698	209,910	313,608
Net appreciation on assets held in trust	-	10,166	10,166
Contributions	-	4,910	4,910
Appropriation of endowment assets for expenditure	(17,465)	(37,367)	(54,832)
Transfers to create board-designated endowment funds	58,165	81	58,246
Transfers to remove board-designated endowment funds	(5,801)	(202)	(6,003)
Other changes, net	(360)	1,066	706
Endowment net assets, end of year	$ 474,680	$ 992,599	$ 1,467,279

Changes in endowment net assets for the year ended June 30, 2020, are as follows (in thousands):

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 336,642	$ 790,737	$ 1,127,379
Investment return	11,605	22,665	34,270
Net depreciation on assets held in trust	-	(327)	(327)
Contributions	-	23,425	23,425
Appropriation of endowment assets for expenditure	(20,186)	(34,544)	(54,730)
Transfers to create board-designated endowment funds	24,677	2,065	26,742
Transfers to remove board-designated endowment funds	(16,201)	-	(16,201)
Other changes, net	(94)	14	(80)
Endowment net assets, end of year	$ 336,443	$ 804,035	$ 1,140,478

Relationship of Spending Policy to Investment Objectives

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

The Institute's spendable endowment payout formula is a controlled growth distribution formula. For fiscal year 2021, the spending is the prior year's endowment payout increased by the higher of the prior June 30th growth in the consumer price index ("CPI-U") as published by U.S. Bureau of Labor Statistics or the Higher Education Price Index ("HEPI") published by the Commonfund Institute.

Endowment spendable amounts are reassessed by the Executive Committee every three years or more frequently as conditions warrant. Prior-year accumulated capital gains are utilized to the extent necessary to meet the annual spendable objective. Depending upon market conditions and the needs and available resources of the Institute, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment or in excess of the spending policy as deemed prudent by the Executive Committee.

NOTE 4 - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of June 30, 2021, $511 million of the Institute's financial assets were without donor or other contractual restriction, including endowment returns that have been appropriated for expenditure for operations in the next twelve months. Of that amount, $475 million has been designated for long-term investment in the endowment by the Board; however, action by the Board could remove the designations from such funds as needed at any time.

The Institute's financial assets consist primarily of investments and cash and cash equivalents. Of the Institute's $1.4 billion pooled endowment portfolio, $469 million was invested in funds with daily liquidity as of June 30, 2021. In addition, the Institute maintains lines of credit totaling $55 million for short-term liquidity needs that may arise, of which $55 million is available as of June 30, 2021.

As of June 30, 2020, $359.4 million of the Institute's financial assets were without donor or other contractual restriction, including endowment returns that have been appropriated for expenditure for operations in the next twelve months. Of that amount, $336.4 million has been designated for long-term investment in the endowment by the Board; however, action by the Board could remove the designations from such funds as needed at any time.

The Institute's financial assets consist primarily of investments and cash and cash equivalents. Of the Institute's $1.1 billion pooled endowment portfolio, $383 million was invested in funds with daily liquidity as of June 30, 2020. In addition, the Institute maintains lines of credit totaling $55 million for short-term liquidity needs that may arise, of which $45 million is available as of June 30, 2020.

NOTE 5 - CONTRIBUTIONS RECEIVABLE

Unconditional promises to contribute to the Institute are recorded as contributions receivable at fair value based upon discounted estimated future cash flows, net of the allowance for uncollectible accounts. The discount rates for fiscal year 2021 ranged from 0.07% to 2.06%. Contributions receivable are expected to be realized as follows (in thousands):

	2021	2020
Collectible during the following periods:		
Year one	$ 14,040	$ 32,562
Year two	18,651	23,444
Year three	10,298	12,810
Year four	4,584	8,994
Year five	9,893	2,640
Thereafter	10,639	12,817
Gross contributions receivable	68,105	93,267
Present value adjustment	(2,958)	(1,879)
Allowance for uncollectible contributions	(2,029)	(2,771)
Net contributions receivable	$ 63,118	$ 88,617

In fiscal year 2020, the Institute adjusted the expected net collectible amount of a pledge receivable from an estate from $2.5 million to $5.0 million based on updated information on legal matters involving the estate and the current value of the estate's assets. This adjustment is reflected in the contributions with donor restrictions line in the fiscal year 2020 statement of activities.

The Institute's unconditional contributions receivable are recorded at fair value and are classified as Level 2 within the fair value hierarchy, except that promises to give that are payable upon the death of the donor are classified as Level 3 due to uncertain timing. In determining the classification within the fair value hierarchy, the Institute considered historical and projected cash flow rates. The fair value calculations may not be indicative of net realizable value or reflective of future fair values. Contributions receivable are classified as follows in the fair value hierarchy as of June 30, 2021 and 2020 (in thousands):

	2021			
	Level 1	Level 2	Level 3	Total
Contributions receivable payable at a specified date	$ -	$ 48,945	$ -	$ 48,945
Contributions receivable payable at an uncertain future date	-	-	14,173	14,173
Total contributions receivable	$ -	$ 48,945	$ 14,173	$ 63,118

	2020			
	Level 1	Level 2	Level 3	Total
Contributions receivable payable at a specified date	$ -	$ 52,731	$ -	$ 52,731
Contributions receivable payable at an uncertain future date	-	-	35,886	35,886
Total contributions receivable	$ -	$ 52,731	$ 35,886	$ 88,617

Quantitative Information about Level 3 Fair Value Measurements

	Fair Value at June 30, 2021	Valuation Technique	Unobservable Input	Range (Weighted Average)
Contributions receivable payable at an uncertain future date	$ 14,173	Discounted cash flow	Years to collect pledge	1 - 20 (3.7) years

NOTE 6 - PROPERTY AND EQUIPMENT, NET

Property and equipment as of June 30, 2021 and 2020, consist of the following (in thousands):

	2021	2020
Land	$ 34,972	$ 34,972
Buildings and improvements	692,476	699,592
Equipment, furniture, and fixtures	33,164	32,269
Total property and equipment	760,612	766,833
Construction in progress	4,501	6,879
Accumulated depreciation	(382,090)	(367,834)
Property and equipment, net	$ 383,023	$ 405,878

In fiscal year 2021, the Institute sold a portion of a building that had a net book value of $5.3 million. A gain on sale of property of $11.8 million is reflected in the non-operating section of the statement of activities.

NOTE 7 - ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities as of June 30, 2021 and 2020, consist of the following (in thousands):

	2021	2020
Accounts payable	$ 14,129	$ 13,570
Art purchase liability	17,843	3,345
Asset retirement obligations	5,744	5,811
Accrued salaries and benefits	6,712	8,378
Accrued interest payable	1,339	1,202
Financing lease obligations	728	315
Other liabilities	1,436	2,114
Total accounts payable and other liabilities	$ 47,931	$ 34,735

NOTE 8 - LEASES

Components of lease expense for the year ended June 30, 2021 are summarized as follows (in thousands):

	2021
Lease expenses [(1)]	
Fixed lease expenses - operating	$ 3,975
Fixed lease expenses - financing	463
Variable lease expenses - financing	8
Total long-term lease expenses	4,446
Total short-term lease expenses	3,101
	$ 7,547

(1) Lease expenses represent the amount recorded within the statement of activities. Fixed lease expenses are recorded on a straight-line basis over the lease term and therefore are not necessarily representative of cash payments made during the same period.

Supplemental statement of financial position information related to leases at June 30, 2021 was as follows:

Weighted-average remaining lease term (in months) - operating leases	150
Weighted-average discount rate - operating leases	0.84%
Weighted-average remaining lease term (in months) - financing leases	33
Weighted-average discount rate - financing leases	0.99%

Minimum future lease payments under non-cancelable operating leases and financing leases having remaining terms in excess of one year as of June 30, 2021, are as follows (in thousands):

Years Ending June 30,	Operating Lease	Financing Lease
2022	$ 2,019	$ 276
2023	4,086	265
2024	4,177	196
2025	4,270	-
2026	4,365	-
Thereafter	34,646	-
Total minimum lease payments	53,563	737
Less: imputed interest	(3,146)	(9)
Present value of future minimum lease payments	$ 50,417	$ 728

NOTE 9 - BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2021 and 2020, consist of the following (in thousands):

	Principal 2021	Principal 2020	Final Maturity or Expiration	Principal Payable	Coupon Interest Rates at June 30
Public bonds:					
Fixed interest rate revenue bonds:					
Series 2016[1]	$ 37,250	$ 37,250	3/1/2038	Varying dates and amounts	3.13% to 5.00%
Taxable bond:					
Series 2012[1]	20,000	20,000	3/1/2027	Varying dates and amounts	3.23% to 3.78%
Total public bonds	57,250	57,250			
Private debt:					
New York Life and affiliates $60 million 2020 notes[1]	58,000	60,000	3/1/2050	Varying dates and amounts	2.65%
Bank of America $23.5 million term loan[2]	23,500	23,500	3/1/2022	At expiration	1.95%
Bank of America $20 million working capital line of credit[3,4]	-	5,000	4/30/2024	At expiration	LIBOR or bank reference rate based
JPMorgan Chase $15 million working capital line of credit[3,4]	-	5,000	5/30/2022	At expiration	LIBOR or bank reference rate based
Northern Trust $20 million working capital line of credit[3,4]	-	-	1/24/2022	At expiration	LIBOR or bank reference rate based
Total outstanding debt	138,750	150,750			
Unamortized premium, discount, and cost of issuance	3,160	3,470			
Total	$ 141,910	$ 154,220			

Notes
(1) Interest is payable on March 1 and September 1.
(2) Interest is payable on varying dates.
(3) Interest rate resets on varying dates.
(4) Interest is payable monthly.

The fair value of bonds payable as of June 30, 2021 and 2020, is $122 million and $124.2 million, respectively, based upon quoted market prices provided by a third-party pricing service. All tax-exempt bonds are issued through the Illinois Finance Authority. The aggregate scheduled maturities of bonds and notes payable are summarized as follows (in thousands):

Years Ending June 30,	
2022	$ 35,500
2023	3,000
2024	3,000
2025	3,000
2026	3,000
Thereafter	91,250
Total	$ 138,750

In April 2020, the Institute issued $60 million par value of taxable private notes to New York Life and affiliates. Proceeds from the note issuance and $18.7 million of cash were used to retire the 2010A bonds and to advance refund the Series 2012A bonds. The Institute recognized a net gain of $162,000 on the transaction in other non-operating in the June 30, 2020 statement of activities.

The Institute's debt and loan agreements require, among other things, the maintenance of a financial ratio. The Institute was in compliance with all financial covenants as of June 30, 2021. Management believes that subject to certain conditions, at a minimum, the following net assets with donor restrictions can be used to meet the Institute's debt obligation as of June 30, 2021 and 2020, (in thousands):

	2021	2020
Contributions receivable for acquisition or improvement of long-lived assets funded wholly or partially by debt	$ 312	$ 13,901
Portion of perpetual endowments subject to a timing restriction under UPMIFA consistent with state law, these funds are available upon appropriation by the Board	264,127	162,780
Other net assets with donor restrictions available for debt obligations	20,409	16,624
Total net assets with donor restrictions available for debt obligations	$ 284,848	$ 193,305

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

NOTE 10 - RESTRICTIONS ON NET ASSETS

Net assets by donor restriction as of June 30, 2021 and 2020 is summarized as follows (in thousands):

	Net Assets Subject to Time and Purpose Restrictions		Net Assets to be Maintained in Perpetuity		Total Net Assets With Donor Restrictions	
	2021	2020	2021	2020	2021	2020
Purchase of art objects	$ 77,973	$ 58,825	$ 76,191	$ 63,015	$154,164	$121,840
Purchase of books	4,582	3,203	2,395	2,395	6,977	5,598
Student aid	47,240	29,440	49,654	48,386	96,894	77,826
Museum exhibitions	26,206	18,154	26,558	26,533	52,764	44,687
Gallery maintenance, professorships, and curatorships	140,813	82,257	174,147	172,272	314,960	254,529
Acquisitions or improvements of long-lived assets	40,253	39,211	-	-	40,253	39,211
Education, instruction, and other departmental purposes	176,045	125,264	85,765	81,323	261,810	206,587
Contribution receivable	22,948	29,195	9,573	24,407	32,521	53,602
Assets held in trust by others	634	520	55,125	44,959	55,759	45,479
General purpose endowments	77,099	57,167	27,295	27,295	104,394	84,462
Total	$ 613,793	$ 443,236	$506,703	$ 490,585	$1,120,496	$ 933,821

The nature of restrictions on net assets released from donor restrictions for the years ended June 30, 2021 and 2020 is summarized as follows (in thousands):

	Released from Restriction	
	2021	2020
Purchase of art objects	$ 30,769	$ 15,952
Purchase of books	266	234
Student aid	4,673	4,584
Museum exhibitions	3,611	4,158
Gallery maintenance, professorships, and curatorships	21,198	11,541
Acquisitions or improvements of long-lived assets	438	789
Education, instruction, and other departmental purposes	27,792	16,144
Total	$ 88,747	$ 53,402

NOTE 11 - PENSION BENEFITS

The Institute has a qualified, noncontributory defined benefit pension plan (the "Plan") covering staff employees who meet the Plan's eligibility. Staff employees hired prior to January 1, 2007, are eligible for the Plan. Staff employees hired after December 31, 2006 and eligible faculty of the School participate in a defined contribution plan in lieu of participation in the Plan. A supplemental retirement plan is provided for certain employees whose benefits are restricted under the qualified plans.

In April 2021, the Institute approved a plan to freeze pension benefits for active employees who participate in the Plan, with an effective date to be determined. The impact of the freeze resulted in a decrease to the projected benefit obligation and decrease to the net periodic benefit cost, which is recognized as a curtailment for the fiscal year ended June 30, 2021.

The following table sets forth the Plan's pension benefit obligation, plan assets, and funded status reconciled with the amounts set forth in the statements of financial position as of June 30, 2021 and 2020 (in thousands):

	2021	2020
Change in benefit obligations		
Benefit obligations - beginning of year	$ 185,775	$ 178,053
Service cost	2,944	3,070
Interest cost	5,626	6,410
Actuarial gain	(4,201)	12,425
Benefits paid	(12,220)	(13,371)
Curtailments	(11,047)	(812)
Projected benefit obligation - end of year	166,877	185,775
Change in plan assets		
Fair value of plan assets - beginning of year	139,114	144,519
Actual return on plan assets	26,014	2,966
Employer contribution	-	5,000
Benefits paid	(12,220)	(13,371)
Fair value of plan assets - end of year	152,908	139,114
Funded status at the end of the year	$ (13,969)	$ (46,661)

The pension plan items not yet recognized as a component of periodic pension cost, but included in net assets as of June 30, 2021 and 2020 is as follows (in thousands):

	2021	2020
Net actuarial loss	$ 27,900	$ 68,611
Prior-service cost	-	1,002
Net amount recognized	$ 27,900	$ 69,613

The accumulated benefit obligation as of June 30, 2021 and 2020, was $165.7 million and $170.5 million, respectively.

As of June 30, 2021 and 2020, components of net periodic benefit cost for the Plan consist of the following (in thousands):

	2021	2020
Service cost	$ 2,944	$ 3,070
Interest cost	5,625	6,410
Expected return on plan assets	(6,817)	(7,468)
Amortization of prior service credit	281	307
Amortization of net actuarial loss	6,267	4,832
Curtailments	721	92
Net periodic benefit cost	$ 9,021	$ 7,243

Assumptions

Weighted-average assumptions used to determine the pension benefit obligation as of June 30, 2021 and 2020 are as follows:

	2021	2020
Discount rate	3.10%	3.07%
Salary growth rate	3.50	3.50

Weighted-average assumptions used to determine pension net periodic cost for the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
Discount rate	3.07%	3.65%
Expected return on plan assets	5.10	5.30
Salary growth rate	3.50	3.75

Estimated Future Benefit Payments

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows (in thousands):

Year Ending June 30:	
2022	$ 11,280
2023	11,083
2024	11,722
2025	11,392
2026	10,697
2027 - 2031	49,993

Plan Assets

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

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

The asset allocation of the active portion of the Plan was as follows as of June 30, 2021 and 2020:

	2021	2020	Target Allocation
Asset category:			
Equity securities	76%	75%	75%
Fixed income securities and cash and cash equivalents	24	25	25
Total	100%	100%	100%

The Plan's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. Investments in publicly traded mutual funds are stated at the last reported sales price on the date of valuation. Institutional commingled funds are stated at fair value of the underlying securities or at NAV, as determined by the administrator, based on readily determinable market values (in thousands). In accordance with ASC 820, investments measured at the NAV or equivalents are not categorized within the fair value hierarchy.

The Plan's investments are classified as follows, based on fair values, as of June 30, 2021 (in thousands):

	2021				
	Investments Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Plan assets, at fair value:					
Cash and cash equivalents	$ 1,494	$ -	$ -	$ -	$ 1,494
Equity securities	62,124	20,491	-	-	82,615
Fixed income securities	57,008	11,791	-	-	68,799
	$ 120,626	$ 32,282	$ -	$ -	$ 152,908

The Plan's investments are classified as follows, based on fair values, as of June 30, 2020 (in thousands):

	2020				
	Investments Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Plan assets, at fair value:					
Cash and cash equivalents	$ 1,289	$ -	$ -	$ -	$ 1,289
Equity securities	45,943	23,001			68,944
Fixed income securities	58,723	10,158			68,881
	$ 105,955	$ 33,159	$ -	$ -	$ 139,114

Employer Contributions to Retirement Plans

The Institute is evaluating making no contributions to its defined benefit pension plan in fiscal year 2021 as Plan contributions made in recent years have exceeded the minimum funding requirements. Employer contributions to the defined contribution plans totaled $5.3 million and $6.2 million, respectively, for the years ended June 30, 2021 and 2020. Employer contributions to the supplemental retirement plan totaled $310,000 and $278,000, respectively, for the years ended June 30, 2021 and 2020.

NOTE 12 - NATURAL CLASSIFICATION OF EXPENSES

The Institute's primary programs are operation of the Museum and the School. Natural expenses incurred in support of these programs are allocated based on a variety of cost allocation techniques, including time and effort and square footage.

The nature of operating expenses by function for the year ended June 30, 2021, are as follows (in thousands):

	Instructional and Academic	Curatorial, Libraries, Collections and Exhibitions	Museum Education	Other Programs	Auxiliary Activities	Total Program Services	Management and General	Fundraising and Member Development	Total
Salaries and wages	$ 53,340	$ 17,332	$ 1,206	$ 1,646	$ 1,949	$ 75,473	$ 15,812	$ 7,088	$ 98,373
Fringe benefits	14,167	5,490	398	576	613	21,244	4,725	2,395	28,364
Contracted services	6,388	6,349	220	144	1,931	15,032	2,592	638	18,262
Equipment, rental, and maintenance	7,300	1,658	22	96	2,888	11,964	1,954	84	14,002
Travel and entertainment	21	7	-	-	-	28	83	3	114
Telephone, copy and postage	1,204	151	5	6	115	1,481	403	279	2,163
Supplies, books, and subscriptions	774	1,077	28	22	138	2,039	297	70	2,406
Publications and printing	557	489	19	8	-	1,073	33	357	1,463
Publicity and promotions	602	11	-	1,097	-	1,710	14	-	1,724
Cost of sales	98	153	-	6	1,487	1,744	46	-	1,790
Utilities	1,247	2,529	87	-	932	4,795	104	80	4,979
Interest	-	-	-	-	-	-	4,414	-	4,414
Bad debt	3	-	-	4	-	7	531	-	538
Other	4,798	2,085	10	575	516	7,984	2,676	342	11,002
Total	$ 90,499	$ 37,331	$ 1,995	$ 4,180	$ 10,569	$ 144,574	$ 33,684	$ 11,336	$ 189,594

The nature of operating expenses by function for the year ended June 30, 2020, are as follows (in thousands):

	Instructional and Academic	Curatorial, Libraries, Collections and Exhibitions	Museum Education	Other Programs	Auxiliary Activities	Total Program Services	Management and General	Fundraising and Member Development	Total
Salaries and wages	$ 60,018	$ 19,596	$ 2,068	$ 2,342	$ 2,839	$ 86,863	$ 17,020	$ 6,351	$ 110,234
Fringe benefits	15,868	6,737	622	744	916	24,887	7,419	2,141	34,447
Contracted services	8,197	8,269	463	381	2,611	19,921	3,494	2,104	25,519
Equipment, rental, and maintenance	7,944	1,461	60	101	3,594	13,160	1,963	86	15,209
Travel and entertainment	1,568	1,133	50	46	22	2,819	330	130	3,279
Telephone, copy and postage	1,158	162	5	126	216	1,667	452	386	2,505
Supplies, books, and subscriptions	1,288	1,490	57	93	264	3,192	192	121	3,505
Publications and printing	1,002	478	41	110	100	1,731	177	562	2,470
Publicity and promotions	914	8	-	1,184	-	2,106	86	58	2,250
Cost of sales	245	126	-	25	2,947	3,343	19	-	3,362
Utilities	1,289	2,511	80	-	873	4,753	112	75	4,940
Interest	-	-	-	-	-	-	6,010	-	6,010
Bad debt	7	-	-	26	-	33	1,298	-	1,331
Other	3,368	4,101	125	1,054	521	9,169	1,731	863	11,763
Total	$ 102,866	$ 46,072	$ 3,571	$ 6,232	$ 14,903	$ 173,644	$ 40,303	$ 12,877	$ 226,824

SUPPLEMENTARY SCHEDULES

The Art Institute of Chicago

SCHEDULE OF OPERATING ACTIVITIES

Year ended June 30, 2021
(in thousands)

	Museum	School	Corporate Financial Services*	Total
Operating revenue and other support				
Tuition and fees (net of $45,868 student aid)	$ -	$ 106,775	$ -	$ 106,775
Contributions	14,821	1,944	-	16,765
Chicago Park District	5,171	-	-	5,171
Museum admissions	5,245	-	-	5,245
Membership dues	7,661	-	-	7,661
Other program revenues and miscellaneous	491	1,645	-	2,136
Investment return designated for current use	13,602	3,519	-	17,121
Auxiliary activities	4,523	7,851	-	12,374
Net assets released from restrictions	25,575	15,221	-	40,796
Total operating revenue and other support	77,089	136,955	-	214,044
Operating expenses				
Program services				
Instructional and academic	-	90,499	-	90,499
Curatorial, libraries and collections	34,638	-	-	34,638
Special exhibitions	2,693	-	-	2,693
Museum education	1,995	-	-	1,995
Other programs	3,060	1,120	-	4,180
Auxiliary activities	5,265	5,304	-	10,569
Total program services	47,651	96,923	-	144,574
Management and general				
General administration	13,756	15,514	-	29,270
Interest and debt cost amortization	2,192	1,830	392	4,414
Total management and general	15,948	17,344	392	33,684
Fundraising and member development	9,278	2,058	-	11,336
Total operating expenses	72,877	116,325	392	189,594
Change in net assets from operations before transfers	4,212	20,630	(392)	24,450
Transfers to quasi-endowment**	19,524	-	-	19,524
Change in net assets from operations	$ 23,736	$ 20,630	$ (392)	$ 43,974

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

** These amounts represent bequests and other gifts without donor restrictions, which were received and transferred for long-term investment as quasi-endowment funds.

The Art Institute of Chicago

SCHEDULE OF OPERATING ACTIVITIES

Year ended June 30, 2020
(in thousands)

	Museum	School	Corporate Financial Services*	Total
Operating revenue and other support				
Tuition and fees (net of $49,878 student aid)	$ -	$ 128,027	$ -	$ 128,027
Contributions	13,770	2,373	-	16,143
Chicago Park District tax	5,633	-	-	5,633
Museum admissions	13,574	-	-	13,574
Membership dues	10,131	-	-	10,131
Other program revenues and miscellaneous	2,289	3,961	-	6,250
Investment return designated for current use	13,070	3,472	2,402	18,944
Auxiliary activities	8,741	12,128	-	20,869
Net assets released from restrictions	27,578	9,083	-	36,661
Total operating revenue and other support	94,786	159,044	2,402	256,232
Operating expenses				
Program services				
Instructional and academic	-	102,866	-	102,866
Curatorial, libraries and collections	41,467	-	-	41,467
Special exhibitions	4,605	-	-	4,605
Museum education	3,571	-	-	3,571
Other programs	3,947	2,285	-	6,232
Auxiliary activities	8,485	6,418	-	14,903
Total program services	62,075	111,569	-	173,644
Management and general				
General administration	14,980	19,313	-	34,293
Interest and debt cost amortization	2,400	2,093	1,517	6,010
Total management and general	17,380	21,406	1,517	40,303
Fundraising and member development	10,637	2,240	-	12,877
Total operating expenses	90,092	135,215	1,517	226,824
Change in net assets from operations before transfers	4,694	23,829	885	29,408
Transfers to quasi-endowment**	2,430	44	-	2,474
Transfers to short-term investment account***	2,803	-	-	2,803
Change in net assets from operations	$ 9,927	$ 23,873	$ 885	$ 34,685

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

** These amounts represent bequests and other gifts without donor restrictions, which were received and transferred for long-term investment as quasi-endowment funds.

*** These amounts represent gifts without donor restriction that have been transferred for short-term investments for future use.

The Art Institute of Chicago

SCHEDULE OF EXPENSES BY NATURAL CLASSIFICATION

Year ended June 30, 2021
(in thousands)

	Museum	School	Corporate Financial Services*	Total
Salaries and wages	$ 35,362	$ 63,011	$ -	$ 98,373
Fringe benefits	11,013	17,351	-	28,364
Contracted services	8,447	9,815	-	18,262
Equipment, rental and maintenance	3,207	10,795	-	14,002
Travel and entertainment	20	94	-	114
Telephone, copy and postage	791	1,372	-	2,163
Supplies, books and subscriptions	1,449	957	-	2,406
Publications and printing	878	585	-	1,463
Publicity and promotions	1,094	630	-	1,724
Cost of sales	1,640	150	-	1,790
Utilities	3,082	1,897	-	4,979
Bad debt	-	538	-	538
Interest	2,192	1,830	392	4,414
Other	3,703	7,299	-	11,002
Total operating expenses	72,878	116,324	392	189,594
Depreciation	14,618	9,967	-	24,585
Total expenses, including depreciation	$ 87,496	$ 126,291	$ 392	$ 214,179

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

The Art Institute of Chicago

SCHEDULE OF EXPENSES BY NATURAL CLASSIFICATION

Year ended June 30, 2020
(in thousands)

	Museum	School	Corporate Financial Services*	Total
Salaries and wages	$ 39,062	$ 71,172	$ -	$ 110,234
Fringe benefits	13,283	21,164	-	34,447
Contracted services	12,546	12,973	-	25,519
Equipment, rental and maintenance	2,900	12,309	-	15,209
Travel and entertainment	1,537	1,742	-	3,279
Telephone, copy and postage	1,052	1,453	-	2,505
Supplies, books and subscriptions	2,001	1,504	-	3,505
Publications and printing	1,260	1,210	-	2,470
Publicity and promotions	1,204	1,046	-	2,250
Cost of sales	3,072	290	-	3,362
Utilities	3,082	1,858	-	4,940
Bad debt	-	1,331	-	1,331
Interest	2,400	2,093	1,517	6,010
Other	6,693	5,070	-	11,763
Total operating expenses	90,092	135,215	1,517	226,824
Depreciation	15,328	10,602	-	25,930
Total expenses, including depreciation	$ 105,420	$ 145,817	$ 1,517	$ 252,754

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