The Art Institute of Chicago

Financial Statements as of and for the Years Ended June 30, 2018 and 2017, Supplementary Information for the Years Ended June 30, 2018 and 2017, 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 accompanying financial statements of The Art Institute of Chicago (the Institute) as of and for the years ended June 30, 2018 and 2017, as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we express no such opinion.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of June 30, 2018 and 2017, the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Schedules

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

Deloitte & Touche LLP

October 5, 2018

THE ART INSTITUTE OF CHICAGO

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2018 AND 2017
(In thousands)

	2018	2017
Assets:		
Cash and cash equivalents	$ 20,936	$ 4,172
Accounts and investment income receivable	10,384	9,838
Contributions receivable	62,658	64,507
Inventories	3,433	4,324
Prepaid expenses and other assets	6,242	4,993
Investments	1,079,991	1,021,246
Property and equipment, net	439,571	456,943
Total assets	**$ 1,623,215**	**$ 1,566,023**
Liabilities and net assets:		
Liabilities:		
Accounts payable and other liabilities	$ 37,289	$ 39,183
Deferred revenues and other	17,223	18,716
Refundable advances	4,051	3,851
Pension liability	21,095	29,227
Bonds and notes payable	196,695	207,361
Total liabilities	**276,353**	**298,338**
Net assets:		
Unrestricted	236,924	195,485
Temporarily restricted	647,219	631,772
Permanently restricted	462,719	440,428
Total net assets	**1,346,862**	**1,267,685**
Total liabilities and net assets	**$ 1,623,215**	**$ 1,566,023**

See notes to financial statements.

THE ART INSTITUTE OF CHICAGO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(In thousands)

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ 166,980	$ -	$ -	$ 166,980
Student aid	(45,383)			(45,383)
Tuition and student program fees, net	121,597			121,597
Contributions	20,826	13,016	21,234	55,076
Chicago Park District tax	5,438			5,438
Museum admissions	17,923			17,923
Membership dues	9,257			9,257
Other program revenues and miscellaneous	9,781			9,781
Investment return designated for current use	17,937	29,363		47,300
Auxiliary activities	25,054			25,054
Net assets released from restrictions	45,356	(45,356)		-
Total operating revenue, gains, and other support	273,169	(2,977)	21,234	291,426
Expenses and losses:				
Programs services:				
Instructional and academic	100,032			100,032
Curatorial, libraries, and collections	38,739			38,739
Special exhibitions	4,455			4,455
Museum education	4,064			4,064
Other programs	6,406			6,406
Auxiliary activities	14,579			14,579
Managerial and general:				
General administration	33,685			33,685
Depreciation	28,937			28,937
Interest and debt cost amortization	8,095			8,095
Member development	2,795			2,795
Fund raising	9,953			9,953
Total expenses and losses	251,740	-	-	251,740
Change in net assets from operations before gain on sale of property	21,429	(2,977)	21,234	39,686
Gain on sale of property	684			684
Change in net assets from operations	**22,113**	**(2,977)**	**21,234**	**40,370**
Nonoperating revenue, expenses, support, gains, and losses:				
Proceeds from the sale of art objects		5,824		5,824
Contributions for the purchase of art objects	10	4,713	256	4,979
Net assets released to fund acquisition of art objects	25,387	(25,387)		-
Investment return designated for art purchases	22	3,801		3,823
Acquisition of art objects	(25,798)			(25,798)
Pension-related changes other than employer service cost	5,961			5,961
Investment return in excess of amounts designated for current operations and art purchases	13,402	30,417	199	44,018
Other transfers	342	(944)	602	-
Change in net assets	**41,439**	**15,447**	**22,291**	**79,177**
Net assets, beginning of year	195,485	631,772	440,428	1,267,685
Net assets, end of year	**$ 236,924**	**$ 647,219**	**$ 462,719**	**$ 1,346,862**

See notes to financial statements.

THE ART INSTITUTE OF CHICAGO

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

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

See notes to financial statements.

THE ART INSTITUTE OF CHICAGO

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(In thousands)

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 79,177	$ 96,175
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	28,337	28,327
Loss on debt defeasance	-	6,369
Gain on sale of property	(684)	-
Loss on retirement of property	1,394	310
Change in pension liability	(8,132)	(13,742)
Contributions restricted for permanently restricted endowment, net	(25,438)	(10,460)
Contributions restricted for capital campaign, net	(201)	(142)
Other losses and write offs	6,067	42
Net unrealized and realized gains on investments	(88,695)	(114,615)
Acquisitions and sales of art, net	19,974	10,612
Change in assets and liabilities:		
Accounts and investment income receivable	(546)	19
Prepaid expenses, other assets, and inventories	848	1,633
Unrestricted and temporarily restricted contributions receivable	2,110	(2,938)
Accounts payable and other liabilities	243	3,925
Refundable advances	200	17
Deferred revenues and other	(1,494)	(1,384)
Net cash provided by operating activities	**13,160**	**4,148**
Cash flows from investing activities:		
Purchases of property and equipment	(15,303)	(28,217)
Proceeds from sales of art objects	5,824	4,898
Acquisition of art objects	(24,907)	(13,616)
Other assets restricted for debt service	(1,206)	1,689
Proceeds from sales of investments	87,064	62,163
Purchases of investments	(55,684)	(38,671)
Net cash used in investing activities	**(4,212)**	**(11,754)**
Cash flows from financing activities:		
Proceeds from contributions restricted for permanently restricted endowment	16,559	14,226
Proceeds from capital campaign	1,322	2,059
Purchase of securities in connection with defeasance of debt	(162)	(45,162)
Payments on notes payable	(9,903)	(19,175)
Proceeds from notes payable	-	51,608
Net cash provided by financing activities	**7,816**	**3,556**
Net increase (decrease) in cash and cash equivalents	**16,764**	**(4,050)**
Cash and cash equivalents at the beginning of year	4,172	8,222
Cash and cash equivalents at the end of year	**$ 20,936**	**$ 4,172**
Supplemental data: Interest paid	$ 8,502	$ 9,485
Supplemental disclosure of noncash items: Property and art purchase additions included in accounts payable	$ 5,477	$ 7,565

See notes to financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America ("US GAAP"). A summary of the Institute's significant accounting policies is set forth below:

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

Classification of Net Assets - Resources are classified for accounting and reporting purposes into three categories of net assets - unrestricted, temporarily restricted, or permanently restricted - according to external donor-imposed restrictions and consistent with relevant law.

Unrestricted net assets include all resources that are not subject to donor-imposed restrictions of a more specific nature than those that only obligate the Institute to utilize funds in furtherance of its mission. Revenues received and expenses incurred in conducting the programs and services of the Institute are presented in the financial statements as unrestricted operating funds that increase or decrease unrestricted net assets. By action of the board of trustees of the Institute (the "Board") or its designee, certain unrestricted net assets have been designated for long-term investment or other special purposes.

Temporarily restricted net assets carry specific donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because of the passage of time or because the Institute has fulfilled the restrictions. Donor-restricted gifts that are not permanently restricted are reported as temporarily restricted contributions, regardless of when the net assets are expended. Transfers of temporarily restricted net assets associated with current expenditures for which the restrictions have been satisfied are reported as net assets released from restrictions. By action of the Board or its designee, certain temporarily restricted assets have been designated for long-term investment in the endowment fund.

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

Permanently restricted net assets are those that are subject to donor-imposed restrictions that will never lapse and thus are restricted to long-term investments and maintained permanently as endowment funds. The portion of the donor-restricted endowment funds classified as permanently restricted net assets is the original value of the assets contributed to the permanent endowment funds, subsequent contributions to such funds valued at the date of contribution, and reinvested earnings on permanent endowment when specified by the donor.

Art Objects and Library Collections - The value of the art objects in the permanent collection, and the holdings of the libraries, are excluded from the statements of financial position. Additions to the permanent collection are made either by gifts, bequests, or through purchases using Institute acquisition funds. Institute acquisition funds may be classified as permanently restricted, for which only the income earned on principal balances may be used for acquisitions; temporarily restricted, for which both the principal and earned income may be used for acquisitions; or unrestricted, representing funds designated by the Board to be used for acquisitions.

The withdrawal of works of art from the collection of the Institute is performed in accordance with a formal policy initially adopted in 1975 and last revised in fiscal year 2015. The objects are generally offered for sale at a public auction and the proceeds from such dispositions are classified as temporarily restricted for the purchase of works of art. All works of art and certain library collections are held for public exhibition, education, or research; they are protected, kept unencumbered, cared for, and preserved, and are subject to strict organizational policies governing their use. The value of the Institute's permanent collection is not subject to reasonable estimation. Therefore, it is not included in the statements of financial position.

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

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

Prepaid Expenses and Other Assets - Prepaid expenses include expenditures for operating supplies, bond issuance costs, and expenditures made in connection with the development of future exhibitions. Exhibition expenditures typically relate to research, organizational travel, insurance, transport costs of the works to be included in the exhibition, and the development of exhibition catalogues. Other assets primarily include cash and cash equivalents restricted for debt service maintained in a restricted pledge proceeds fund, as stipulated in the Series 2012A bond indenture agreement. As of June 30, 2018 and 2017, the restricted pledge proceeds fund balance was $3.1 million and $1.9 million, respectively.

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

Property and Equipment - Legal title to the Institute's Grant Park facility, a significant component of which has been designated a historical monument, and to the land on which it is situated, is vested in the Chicago Park District. The sole and permanent right to the use and occupancy of the land and buildings, including any future improvements, was vested at no cost to the Institute in 1893 as long as the Institute uses the property for the purposes for which it is incorporated.

The Institute owns properties that provide instructional, public programming, administrative, storage, and student housing space. Portions of some of these facilities are leased to others. The land, buildings, building improvements, and related equipment, furniture, and fixtures are stated at cost, net of depreciation. Depreciable assets are depreciated using the straight-line method over the estimated useful lives of the assets. Buildings constructed prior to 2005 on Grant Park property have a useful life of 50 years; the purchase, completed construction, and major improvements of all other buildings have a useful life of 40 years. Subsequent building improvements have useful lives ranging from 5 to 31.5 years. Equipment, furniture, and fixtures have useful lives ranging from 3 to 10 years.

The Institute adopted the optional method for reporting net assets released for long-lived assets. The Institute's accounting policy prescribes that the temporarily restricted net assets related to long-lived assets are released on a schedule that corresponds with the depreciation schedule of the related property and equipment.

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

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

Purchases and sales of investments are recorded on trade dates and realized and unrealized gains and losses are determined on the basis of average cost of securities. Realized and unrealized appreciation or depreciation in the carrying value of investments is classified as part of either unrestricted, temporarily restricted, or permanently restricted net assets in accordance with applicable donor and legal requirements.

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

Deferred Revenues and Other - Tuition from students and residential revenues are recognized ratably as revenue over the applicable term. Deferred lease payments are recognized as an expense on a straight-line basis over the lease term.

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

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

Member Development - Member development includes identifying and offering memberships to prospective members, member relations, and member communications.

Purchases and Sales of Art - All revenues and expenses associated with the purchases and sales of art objects, including restricted giving and the release and use of restricted and unrestricted funds for such purposes, are considered non-operating revenues and expenses.

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

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

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

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*, prescribes a comprehensive model for how an institution should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the institution has taken or expects to take on a tax return. For federal purposes, the Institute has reported federal net operating losses ("NOLs") of approximately $11.1 million for tax periods through June 30, 2017. The Institute does not have the ability to estimate the NOL through June 30, 2018, as the NOL calculation is reliant upon third-party information, which is not yet available. These NOLs will expire, if not utilized, between the years 2027 and 2037. The Institute has not recorded a tax benefit for these NOLs for the years ended June 30, 2018 and 2017, because it is unlikely that the Institute will be able to realize the benefit.

Other Transfers - The Institute records reclassifications between net asset categories as other transfers. Other transfers primarily consist of donor clarification on previously undetermined restrictions and net proceeds from events that have a restricted purpose.

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

Recently Adopted Accounting Pronouncements - In March 2017, the FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard requires reporting the service cost component of net periodic pension in operating expenses, while all other components of net periodic pension costs are reported as part of non-operating revenues and expenses. The Institute adopted ASU No. 2017-07 in fiscal year 2018, and as a result, $4.4 million of net periodic benefit costs were reported in pension-related changes other than employer service cost in the fiscal year 2018 statement of activities.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework–Changes to the Disclosure Requirements for Fair Value Measurement.* This standard modified certain disclosure requirements related to the fair value measurement leveling categories. The Institute adopted ASU No. 2018-13 in fiscal year 2018, and there was no impact on the disclosures for investments.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation–Retirement Benefits–Defined Benefit Plans–General (Subtopic 715-20): Disclosure Framework–Changes to the Disclosure Requirements for Defined Benefit Plans.* This standard modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The Institute adopted ASU No. 2018-14 in fiscal year 2018, and there was no material impact on disclosures for pensions.

Upcoming Accounting Pronouncements Not Yet Adopted - In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for US GAAP and International Financial Reporting Standards. ASU No. 2014-09 will be effective for fiscal years beginning after December 15, 2017. The Institute is currently evaluating the impact of adopting this standard.

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

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

Subsequent Events - The Institute evaluated activity through October 5, 2018, the date the financial statements were issued, and concluded that no other subsequent events have occurred that would require recognition or that have not been disclosed elsewhere.

2. INVESTMENTS

Investments as of June 30, 2018 and 2017, consist of the following (in thousands):

	2018					
	Pooled		Non Pooled Investments		Total	
Cash and cash equivalents	$ 59,129	5.8 %	$ 684	1.2 %	$ 59,813	5.5 %
Fixed income securities	52,135	5.1	4,807	8.4	56,942	5.3
Equity securities	486,985	47.6	4,588	8.1	491,573	45.5
Hedge funds	276,214	27.0			276,214	25.6
Venture capital and private equity	96,905	9.5			96,905	9.0
Real assets	51,635	5.0			51,635	4.8
Total assets held for investment	1,023,003	100.0	10,079	17.7	1,033,082	95.7
Assets held in trust by others			46,909	82.3	46,909	4.3
Total investments	$ 1,023,003	100.0 %	$ 56,988	100.0 %	$ 1,079,991	100.0 %

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

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

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

2. INVESTMENTS (continued)

The changes in fair value of assets held for investment and assets held in trust by others as of June 30, 2018 and 2017, exclusive of accrued expenses of $79,000 and $116,000, respectively, are as follows (in thousands):

	For the Year Ended 2018			
	Assets Held for Investment		Assets Held	
Change in fair value:	Pooled	Non Pooled	in Trust	Total
Realized	$ 47,056	$ 252	$ -	$ 47,308
Unrealized	41,226	161		41,387
Dividend and interest income	6,265	187	2,100	8,552
Cash gifts and other additions	16,144		1,429	17,573
Transfers out	(2,388)	(92)		(2,480)
Investment management fees	(2,460)	(18)		(2,478)
Allocation of spendable funds	(48,841)	(176)	(2,100)	(51,117)
Net change in fair value	57,002	314	1,429	58,745
Fair value, beginning of year	966,001	9,765	45,480	1,021,246
Fair value, end of year	$ 1,023,003	$ 10,079	$ 46,909	$ 1,079,991

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

Realized and unrealized gains included in the statements of activities for the years ended June 30, 2018 and 2017, are reported in the financial statement as investment return designated for current use, investment return designated for art purchases, and investment return in excess of amounts designated for current operations and art purchases.

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, 2018 and 2017, are summarized as follows:

	2018		2017	
	Fair Value	Rate of Return	Fair Value	Rate of Return
Pooled endowment funds investments	$ 1,023,003	9.9%	$ 966,001	13.7%

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.

2. INVESTMENTS (continued)

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

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

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

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

In accordance with ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent)*, investments measured at the net asset value per share ("NAV") or equivalent are not categorized within the fair value hierarchy. The Institute's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The valuation techniques used by the Institute to measure different financial instruments at fair value are described below:

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

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

2. INVESTMENTS (continued)

The Institute's investments are classified as follows, based on fair values, as of June 30, 2018 (in thousands):

	2018				
Pooled investments	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ -	$ 59,129	$ -	$ -	$ 59,129
Fixed income securities		52,135			52,135
Equity securities	385,304	101,681			486,985
Hedge funds	276,214				276,214
Venture capital and private equity	96,905				96,905
Real assets	43,099	8,536			51,635
Total pooled investments	801,522	221,481	-	-	1,023,003
Non pooled investments					
Cash and cash equivalents		684			684
Fixed income securities		2,043	2,764		4,807
Equity securities		4,588			4,588
Assets held in trust by others		41,581	3,702	1,626	46,909
Total non pooled investments	-	48,896	6,466	1,626	56,988
Total investments	$ 801,522	$ 270,377	$ 6,466	$ 1,626	$ 1,079,991

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

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

2. INVESTMENTS (continued)

The unfunded commitments, redemption frequency, and redemption notice period of the pooled investments held at NAV or its equivalent are as follows as of June 30, 2018 and 2017, (in thousands):

	2018				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Lockup or Gate
Equity securities	$ 385,304	N/A	Daily-Quarterly	1-60 Days	None
Hedge funds	276,214	11,906	Monthly-Biennially	30-95 Days	One fund subject to a 2 year lockup
Venture capital and private equity	96,905	69,254	N/A	N/A	N/A
Real assets	43,099	36,667	N/A	N/A	N/A
Total	$ 801,522	$ 117,827			

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

3. ENDOWMENT FUNDS

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

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

3. ENDOWMENT FUNDS (continued)

The Board has interpreted the State of Illinois' UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies the following as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until any applicable purpose has been fulfilled and those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate endowment funds:

1) The duration and preservation of the fund
2) The mission of the Institute and the purposes of the donor-restricted endowment fund
3) General economic conditions
4) The possible effects of inflation and deflation
5) The expected total return from income and appreciation of investments
6) Other resources of the Institute
7) The investment policies of the Institute

When the Board designates unrestricted funds to function as endowments, they are classified as unrestricted net assets. When the Board designates donor-restricted non-endowment funds to function as endowments, they are classified as temporarily restricted net assets. From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts ("deficit"). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. As of June 30, 2018 and 2017, $79,000 and $356,000, respectively, of donor endowment deficits were reported in unrestricted net assets.

The Institute's endowment net asset composition (including pledges) as of June 30, 2018 and 2017, is as follows (in thousands):

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (79)	$ 305,292	$ 462,719	$ 767,932
Board-designated endowment funds	309,851	44,820		354,671
Total funds	$ 309,772	$ 350,112	$ 462,719	$ 1,122,603

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

3. ENDOWMENT FUNDS (continued)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) as of June 30, 2018 and 2017, are as follows (in thousands):

	2018	2017
Permanently restricted net assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	$ 462,719	$ 440,428
Temporarily restricted net assets		
Term endowment funds and purpose restricted endowment earnings	$ 181,654	$ 168,125
The portion of perpetual endowments subject to a time restriction under UPMIFA	168,458	151,698
Total endowment funds classified as temporarily restricted net assets	$ 350,112	$ 319,823

Changes in endowment net assets for the year ended June 30, 2018, are as follows (in thousands):

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 296,321	$ 319,823	$ 440,428	$ 1,056,572
Investment income	3,768	4,316		8,084
Net appreciation on pooled and non pooled investments	27,554	59,011	199	86,764
Net appreciation on assets held in trust			1,404	1,404
Contributions			20,085	20,085
Appropriation of endowment assets for expenditure	(17,959)	(33,164)		(51,123)
Transfers to create board-designated endowment funds	13,746	116		13,862
Transfers to remove board-designated endowment funds	(13,658)			(13,658)
Other changes, net		10	603	613
Endowment net assets, end of year	$ 309,772	$ 350,112	$ 462,719	$ 1,122,603

3. ENDOWMENT FUNDS (continued)

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

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

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 2017 and years following, the spending is the prior year's endowment payout increased by the higher of the prior June 30th growth in the consumer price index (CPI-U) as published by U.S. Bureau of Labor Statistics or the Higher Education Price Index (HEPI) published by the Commonfund Institute.

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

4. CONTRIBUTIONS RECEIVABLE

Unconditional promises to contribute to the Institute are recorded as contributions receivable at fair value based upon discounted estimated future cash flows, net of the allowance for uncollectible accounts. The discount rates for fiscal year 2018 ranged from 2.3% to 2.9% and for fiscal year 2017 ranged from 1.2% to 2.4%. Contributions receivable are expected to be realized as follows (in thousands):

Collectible during the following periods:	2018	2017
Year one	$ 14,993	$ 16,006
Year two	23,171	23,995
Year three	3,715	6,851
Year four	1,482	16,523
Year five and thereafter	33,305	6,129
Gross contributions receivable	76,666	69,504
Fair value adjustment	(11,821)	(3,005)
Allowance for uncollectible contributions	(2,187)	(1,992)
Net contributions receivable	$ 62,658	$ 64,507

In fiscal year 2018, the Institute adjusted the expected net collectible amount of a permanently restricted pledge receivable from an estate from $14.3 million to $9.3 million based on updated information on matters involving the remaining value of the estate. This adjustment is reflected in the permanently restricted contributions line in the statement of activities.

The Institute's unconditional promises to contribute are recorded at fair value and are classified as Level 2 within the fair value hierarchy, except that promises to give that are payable upon the death of the donor are classified as Level 3 due to uncertain timing. Level 2 contributions receivable were $37.9 million and $32.7 million for the fiscal years 2018 and 2017, respectively. Level 3 contributions receivable were $24.8 million and $31.8 million for the fiscal years 2018 and 2017, respectively. In determining the classification within the fair value hierarchy, the Institute considered historical and projected cash flow rates. The fair value calculations may not be indicative of net realizable value or reflective of future fair values.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment as of June 30, 2018 and 2017, consist of the following (in thousands):

	2018	2017
Land	$ 34,972	$ 35,057
Buildings and improvements	690,057	668,555
Equipment, furniture, and fixtures	26,261	28,021
Total property and equipment	751,290	731,633
Construction in progress	4,357	16,564
Accumulated depreciation	(316,076)	(291,254)
Property and equipment, net	$ 439,571	$ 456,943

6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities as of June 30, 2018 and 2017, consist of the following (in thousands):

	2018	2017
Accounts payable	$ 16,525	$ 20,514
Art purchase liability	4,447	2,232
Asset retirement obligations	5,911	6,049
Accrued salaries and benefits	5,575	4,951
Accrued interest payable	2,670	2,793
Other liabilities	2,161	2,644
Total accounts payable and other liabilities	$ 37,289	$ 39,183

7. COMMITMENTS AND CONTINGENCIES

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

The Institute has operating lease agreements for academic, office and storage space, and office equipment expiring in various years through 2025. Certain operating leases provide for renewal options for periods from 1 to 10 years. Total lease expenses were $6.7 million and $5.8 million for the years ended June 30, 2018 and 2017, respectively. Minimum future lease payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2018, are as follows (in thousands):

Years ending June 30,	
2019	$ 8,156
2020	4,950
2021	934
2022	517
2023	435
Thereafter	910
Total minimum lease payments	$ 15,902

8. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2018 and 2017, consist of the following (in thousands):

	Principal 2018	Principal 2017	Final Maturity or Expiration	Principal Payable	Coupon Interest Rates at June 30
Bonds:					
Medium/long-term bonds tax exempt:					
Adjustable interest rate demand revenue bonds:					
Series 2000A[1,5]	$ -	$ 6,000	3/1/2034	Paid in full in March 2018	5.25%
Fixed interest rate revenue bonds:					
Series 2009A[1]	20,000	20,000	3/1/2019	At maturity	5.25%
Series 2010A[1]	45,170	45,170	3/1/2040	At maturity	5.25%
Series 2012A[1]	32,675	33,940	3/1/2034	Varying dates and amounts	4.00% to 5.00%
Series 2016[1]	37,250	37,250	3/1/2038	Varying dates and amounts	3.13% to 5.00%
Taxable bonds:					
Series 2012[1]	30,000	30,000	3/1/2027	Varying dates and amounts	2.48% to 3.78%
Total bonds	165,095	172,360			
Bank debt:					
Wells Fargo $24 million term loan[2]	24,000	24,000	10/24/2019	At expiration	1.94%
Bank of America $20 million working capital line of credit[3,4]	-	2,800	4/30/2021	At expiration	LIBOR or bank reference rate based
JPMorgan Chase $15 million working capital line of credit[3,4]	-	-	5/30/2019	At expiration	LIBOR or bank reference rate based
Northern Trust $20 million working capital line of credit[3,4]	-	-	1/24/2020	At expiration	LIBOR or bank reference rate based
Total outstanding debt	189,095	199,160			
Unamortized premium, discount, and cost of issuance	7,600	8,201			
Total	$ 196,695	$ 207,361			

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

Interest Reset Period
(4) Interest rate resets on varying dates.
(5) Interest rate reset period is 5 years.

8. BONDS AND NOTES PAYABLE (continued)

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

In April 2018, Bank of America line of credit agreement was increased from $10 million to $20 million and the JPMorgan Chase line of credit agreement was decreased from $25 million to $15 million.

The fair value of bonds payable as of June 30, 2018 and 2017, is $172.9 million and $182.7 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):

2019	$ 31,125
2020	25,220
2021	1,325
2022	11,280
2023	1,000
2024 and thereafter	119,145
Total	$ 189,095

The Institute's debt and loan agreements require, among other things, the maintenance of certain financial ratios. The Institute was in compliance with all financial covenants as of June 30, 2018 and 2017. Management believes that subject to certain conditions, at a minimum, the following temporarily restricted net assets can be used to meet the Institute's debt obligation as of June 30, 2018 and 2017, (in thousands):

	2018	2017
Restricted contributions received for acquisition or improvement of long-lived assets	$ 226,489	$ 234,681
Contributions receivable for acquisition or improvement of long-lived assets funded wholly or partially by debt	10,462	12,974
Portion of perpetual endowments subject to a timing restriction under UPMIFA consistent with state law, these funds are available upon appropriation by the Board	168,458	151,697
Other temporarily restricted net assets available for debt obligations	20,169	18,259
Total temporarily restricted net assets available for debt obligations	$ 425,578	$ 417,611

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

9. RESTRICTIONS ON NET ASSETS

The nature of restrictions on net assets released from donor restrictions and balances of temporarily and permanently restricted net assets by donor restriction for the years ended June 30, 2018 and 2017, are summarized as follows (in thousands):

	Released from Restriction		Temporarily Restricted Net Asset Balances		Permanently Restricted Net Asset Balances	
	2018	2017	2018	2017	2018	2017
Purchase of art objects	$ 25,387	$ 14,072	$ 53,855	$ 54,931	$ 61,446	$ 60,889
Purchase of books	217	218	3,354	3,140	2,144	2,144
Student aid	4,989	4,691	47,464	44,263	43,329	39,159
Museum exhibitions	3,955	4,224	13,573	14,874	26,458	26,408
Museum publications	264	348	6,304	5,936	3,710	3,610
Gallery maintenance, professorships, and curatorships	9,533	8,943	76,693	66,966	139,825	130,664
Acquisitions or improvements of long-lived assets	9,684	10,359	226,862	235,053		
Education, instruction, and other departmental purposes	16,714	15,353	140,048	126,422	71,934	68,778
Contribution receivable			19,997	24,866	40,258	36,731
Assets held in trust by others			465	440	46,442	45,038
General purpose			58,604	54,881	27,173	27,007
Total	$ 70,743	$ 58,208	$ 647,219	$ 631,772	$ 462,719	$ 440,428

10. PENSION BENEFITS

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

The following table sets forth the Plan's pension benefit obligation, plan assets, and funded status reconciled with the amounts set forth in the statements of financial position as of June 30, 2018 and 2017 (in thousands):

	2018	2017
Change in benefit obligation		
Benefit obligation—beginning of year	$ 168,401	$ 170,305
Service cost	2,829	3,068
Interest cost	6,641	6,514
Actuarial gain	(7,453)	(5,045)
Benefits paid	(9,914)	(6,441)
Plan amendments	(334)	
Projected benefit obligation—end of year	160,170	168,401
Change in plan assets		
Fair value of plan assets—beginning of year	139,174	127,336
Actual return on plan assets	4,815	10,779
Employer contribution	5,000	7,500
Benefits paid	(9,914)	(6,441)
Fair value of plan assets—end of year	139,075	139,174
Funded status at the end of the year	$ (21,095)	$ (29,227)

The pension plan items not yet recognized as a component of periodic pension cost, but included in net assets as of June 30, 2018 and 2017, are as follows (in thousands):

	2018	2017
Net actuarial loss	$ 45,698	$ 55,329
Prior-service cost	1,708	2,427
Net amount recognized	$ 47,406	$ 57,756

The accumulated benefit obligation as of June 30, 2018 and 2017, was $144.7 million and $151.0 million, respectively.

As of June 30, 2018 and 2017, components of net periodic benefit cost for the Plan consist of the following (in thousands):

	2018	2017
Service cost	$ 2,829	$ 3,068
Interest cost	6,641	6,514
Expected return on plan assets	(7,276)	(6,444)
Amortization of prior service credit	385	385
Amortization of net actuarial loss	4,639	6,422
Net periodic benefit cost	$ 7,218	$ 9,945

10. PENSION BENEFITS (continued)

Assumptions - Weighted-average assumptions used to determine the pension benefit obligation as of June 30, 2018 and 2017, are as follows:

	2018	2017
Discount rate	4.31 %	4.00 %
Salary growth rate	3.75	3.75

Weighted-average assumptions used to determine pension net periodic cost for the years ended June 30, 2018 and 2017, are as follows:

	2018	2017
Discount rate	4.00 %	3.90 %
Expected return on plan assets	5.34	5.20
Salary growth rate	3.75	3.75

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

Years Ending June 30,		
2019	$	11,201
2020		10,268
2021		10,484
2022		11,064
2023		11,478
2024-2028		57,379

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, 2018 and 2017:

Asset category:	2018	2017	Target Allocation
Equity securities	75 %	77 %	75 %
Fixed income securities and cash and cash equivalents	25	23	25
Total	100 %	100 %	100 %

10. PENSION BENEFITS (continued)

The Plan's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. Investments in mutual funds traded on a national securities exchange are stated at the last reported sales price on the date of valuation. Institutional commingled funds are stated at fair value of the underlying securities or at NAV, as determined by the administrator, based on readily determinable market values (in thousands). In accordance with ASU No. 2015-07, investments measured at the NAV or equivalents are not categorized within the fair value hierarchy.

The Plan's investments are classified as follows, based on fair values, as of June 30, 2018 (in thousands):

		2018			
Plan assets, at fair value:	Investments Measured at NAV or equivalent	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,969	$ -	$ -	$ -	$ 1,969
Equity securities	41,467	25,545			67,012
Fixed income securities	57,846	12,248			70,094
Total plan assets, at fair value	$ 101,282	$ 37,793	$ -	$ -	$ 139,075

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

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

Employer Contributions to Retirement Plans - The Institute expects to contribute $5.0 million to its defined benefit pension plan in fiscal year 2019. Employer contributions to the defined contribution plans totaled $5.3 million and $5.0 million, respectively, for the years ended June 30, 2018 and 2017. Employer contributions to the supplemental retirement plan totaled $332,000 and $316,000, respectively, for the years ended June 30, 2018 and 2017.

11. NATURAL CLASSIFICATION OF EXPENSES

Expenses by natural classification for operating activities for the year ended June 30, 2018, are as follows (in thousands):

	Museum	School	Corporate Financial Services	Total	% of Total
Salaries and wages	$ 35,662	$ 66,314	$ -	$ 101,976	40.5 %
Fringe benefits	10,115	18,208	1,133	29,456	11.7 %
Contracted services	14,188	13,853		28,041	11.1 %
Equipment, rental, and maintenance	3,741	12,921		16,662	6.6 %
Travel and entertainment	2,140	2,641		4,781	1.9 %
Telephone, copy, fax, and postage	1,190	1,457		2,647	1.1 %
Supplies, books, and subscriptions	2,522	1,887		4,409	1.8 %
Publications and printing	1,746	1,277		3,023	1.2 %
Publicity and promotions	1,472	1,327		2,799	1.1 %
Cost of sales	4,091	378		4,469	1.8 %
Utilities	3,155	2,005		5,160	2.0 %
Bad debt	1	760		761	0.3 %
Interest and debt cost amortization	2,677	2,637	2,781	8,095	3.2 %
Depreciation	17,046	11,891		28,937	11.5 %
Other	5,870	4,614	40	10,524	4.2 %
Total	$ 105,616	$ 142,170	$ 3,954	$ 251,740	100.0 %

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

	Museum	School	Corporate Financial Services	Total	% of Total
Salaries and wages	$ 35,806	$ 63,298	$ -	$ 99,104	38.4 %
Fringe benefits	10,293	17,010	8,245	35,548	13.8 %
Contracted services	15,244	12,279		27,523	10.7 %
Equipment, rental, and maintenance	3,648	12,380		16,028	6.2 %
Travel and entertainment	1,821	2,133		3,954	1.5 %
Telephone, copy, fax, and postage	1,781	1,675		3,456	1.3 %
Supplies, books, and subscriptions	2,327	1,923		4,250	1.6 %
Publications and printing	2,746	1,110		3,856	1.5 %
Publicity and promotions	1,552	1,142		2,694	1.0 %
Cost of sales	5,460	344		5,804	2.2 %
Utilities	3,277	2,188		5,465	2.1 %
Bad debt	1	751		752	0.3 %
Interest and debt cost amortization	2,793	2,973	2,964	8,730	3.4 %
Depreciation	17,143	11,916		29,059	11.3 %
Other	6,905	4,860		11,765	4.7 %
Total	$ 110,797	$ 135,982	$ 11,209	$ 257,988	100.0 %

The Institute's corporate financial services activity represents internal bank activity that provides financing for various Museum and School initiatives and allocates certain other costs affected by interest rate fluctuations.

SUPPLEMENTARY SCHEDULES

THE ART INSTITUTE OF CHICAGO

SUPPLEMENTAL SCHEDULE OF
UNRESTRICTED OPERATING ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(In thousands)

	Museum	School	Corporate Financial Services*	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ -	$ 166,980	$ -	$ 166,980
Student aid		(45,383)		(45,383)
Tuition and student program fees, net		121,597		121,597
Contributions	15,004	2,067		17,071
Chicago Park District tax	5,438			5,438
Museum admissions	17,923			17,923
Membership dues	9,257			9,257
Other program revenues and miscellaneous	3,502	6,279		9,781
Investment return designated for current use	11,955	3,014	2,968	17,937
Auxiliary activities	11,891	13,163		25,054
Net assets released from restrictions	34,786	10,570		45,356
Total operating revenue, gains, and other suppo	109,756	156,690	2,968	269,414
Expenses and losses:				
Programs services:				
Instructional and academic		100,032		100,032
Curatorial, libraries, and collections	38,739			38,739
Special exhibitions	4,455			4,455
Museum education	4,064			4,064
Other programs	4,378	2,028		6,406
Auxiliary activities	9,048	5,531		14,579
Managerial and general:				
General administration	15,614	16,898	1,173	33,685
Depreciation	17,046	11,891		28,937
Interest and debt cost amortization	2,677	2,637	2,781	8,095
Member development	2,795			2,795
Fund raising	6,800	3,153		9,953
Total expenses and losses	105,616	142,170	3,954	251,740
Change in net assets from operations before transfers to quasi-endowment and gain on sale of property	4,140	14,520	(986)	17,674
Transfers to quasi-endowment**	3,510	245		3,755
Gain on sale of property	527	157		684
Change in net assets from operations	**$ 8,177**	**$ 14,922**	**$ (986)**	**$ 22,113**

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

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

THE ART INSTITUTE OF CHICAGO

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

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

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