The Art Institute of Chicago

Financial Statements as of and for the Years Ended June 30, 2019 and 2018, Supplementary Information for the Year Ended June 30, 2019, 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, 2019 and 2018, 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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2019, the Institute has adopted Accounting Standards Updated No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not for Profit Entities*. Our opinion is not modified with respect to this matter.

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 4, 2019

THE ART INSTITUTE OF CHICAGO

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2019 AND 2018
(In thousands)

		2019		2018
Assets:				
Cash and cash equivalents	$	31,374	$	20,936
Accounts and investment income receivable		8,950		10,384
Contributions receivable		83,736		62,658
Inventories		3,857		3,433
Prepaid expenses and other assets		3,558		6,242
Investments		1,100,086		1,079,991
Property and equipment, net		421,224		439,571
Total assets	**$**	**1,652,785**	**$**	**1,623,215**
Liabilities and net assets:				
Liabilities:				
Accounts payable and other liabilities	$	40,999	$	37,289
Deferred revenues and other		15,569		17,223
Refundable advances		4,320		4,051
Pension liability		33,534		21,095
Bonds and notes payable		164,971		196,695
Total liabilities		**259,393**		**276,353**
Net assets:				
Without donor restrictions		491,923		463,784
With donor restrictions		901,469		883,078
Total net assets		**1,393,392**		**1,346,862**
Total liabilities and net assets	**$**	**1,652,785**	**$**	**1,623,215**

See notes to financial statements.

THE ART INSTITUTE OF CHICAGO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue, gains, and other support:			
Tuition and student program fees	$ 173,580	$ -	$ 173,580
Student aid	(48,400)		(48,400)
Tuition and student program fees, net	125,180		125,180
Contributions	21,529	28,910	50,439
Chicago Park District tax	5,343		5,343
Museum admissions	18,349		18,349
Membership dues	9,550		9,550
Other program revenues and miscellaneous	9,503		9,503
Investment return designated for current use	17,748	30,447	48,195
Auxiliary activities	25,894		25,894
Net assets released from restrictions	40,255	(40,255)	-
Total operating revenue, gains, and other support	273,351	19,102	292,453
Expenses and losses:			
Programs services:			
Instructional and academic	104,519		104,519
Curatorial, libraries, and collections	43,082		43,082
Special exhibitions	5,269		5,269
Museum education	4,103		4,103
Other programs	6,457		6,457
Auxiliary activities	15,092		15,092
Managerial and general:			
General administration	31,810		31,810
Interest and debt cost amortization	7,339		7,339
Fundraising and member development	14,393		14,393
Total expenses and losses	232,064	-	232,064
Change in net assets from operations	**41,287**	**19,102**	**60,389**
Nonoperating revenue, expenses, support, gains, and losses:			
Proceeds from the sale of art objects		13,122	13,122
Acquisition of art objects	(22,018)		(22,018)
Contributions for the purchase of art objects		13,211	13,211
Net assets released to fund acquisition of art objects	21,787	(21,787)	-
Investment return designated for art purchases	22	4,192	4,214
Contributions for capital and equipment		19,566	19,566
Net assets released for capital and equipment placed in service	553	(553)	-
Depreciation expense	(27,521)		(27,521)
Pension-related changes other than employer service cost	(14,716)		(14,716)
Investment return in excess of (less than) amounts designated for current operations and art purchases	(1,204)	1,487	283
Other transfers	29,949	(29,949)	-
Change in net assets	**28,139**	**18,391**	**46,530**
Net assets, beginning of year	463,784	883,078	1,346,862
Net assets, end of year	**$ 491,923**	**$ 901,469**	**$ 1,393,392**

See notes to financial statements.

THE ART INSTITUTE OF CHICAGO

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

	Without Donor Restrictions	With Donor Restrictions	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	32,929	53,755
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	35,843	(35,843)	-
Total operating revenue, gains, and other support	263,656	26,449	290,105
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
Interest and debt cost amortization	8,095		8,095
Fundraising and member development	12,748		12,748
Total expenses and losses	222,803	-	222,803
Change in net assets from operations before gain on sale of property	40,853	26,449	67,302
Gain on sale of property	684		684
Change in net assets from operations	**41,537**	**26,449**	**67,986**
Nonoperating revenue, expenses, support, gains, and losses:			
Proceeds from the sale of art objects		5,824	5,824
Acquisition of art objects	(25,798)		(25,798)
Contributions for the purchase of art objects	10	4,969	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
Contributions for capital and equipment		1,321	1,321
Net assets released for capital and equipment placed in service	1,321	(1,321)	-
Depreciation expense	(28,937)		(28,937)
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	30,616	44,018
Other transfers	342	(342)	-
Change in net assets	**33,247**	**45,930**	**79,177**
Net assets, beginning of year - reclassified (Note 1)	430,537	837,148	1,267,685
Net assets, end of year	**$ 463,784**	**$ 883,078**	**$ 1,346,862**

See notes to financial statements.

THE ART INSTITUTE OF CHICAGO

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018
(In thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 46,530	$ 79,177
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	26,922	28,337
Gain on sale of property	-	(684)
Loss on retirement of property	133	1,394
Change in pension liability	12,439	(8,132)
Contributions restricted for permanent endowment	(12,593)	(25,438)
Contributions restricted for capital campaign, net	(583)	(201)
Other losses and write offs	187	6,067
Net unrealized and realized gains on investments	(44,598)	(88,695)
Acquisitions and sales of art, net	8,896	19,974
Change in assets and liabilities:		
Accounts and investment income receivable	1,434	(546)
Prepaid expenses, other assets, and inventories	2,260	848
Contributions receivable	(27,056)	2,110
Accounts payable and other liabilities	2,462	243
Refundable advances	269	200
Deferred revenues and other	(1,653)	(1,494)
Net cash provided by operating activities	**15,049**	**13,160**
Cash flows from investing activities:		
Purchases of property and equipment	(9,155)	(15,303)
Proceeds from sales of art objects	13,122	5,824
Acquisition of art objects	(20,921)	(24,907)
Other assets restricted for debt service	-	(1,206)
Proceeds from sales of investments	59,569	87,064
Purchases of investments	(35,364)	(55,684)
Net cash provided by (used in) investing activities	**7,251**	**(4,212)**
Cash flows from financing activities:		
Proceeds from contributions restricted for permanent endowment	18,610	16,559
Proceeds from capital campaign	653	1,322
Purchase of securities in connection with defeasance of debt	-	(162)
Payments on notes payable	(31,125)	(9,903)
Net cash (used in) provided by financing activities	**(11,862)**	**7,816**
Net increase in cash and cash equivalents	**10,438**	**16,764**
Cash and cash equivalents at the beginning of year	20,936	4,172
Cash and cash equivalents at the end of year	**$ 31,374**	**$ 20,936**
Supplemental data: Interest paid	$ 8,122	$ 8,502
Supplemental disclosure of noncash items: Property and art purchase additions included in accounts payable	$ 6,725	$ 5,477

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").

The Institute has adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("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. This standard was implemented in the fiscal year 2019 financial statements, with retrospective application to the comparative fiscal year 2018 financial statements and disclosures as required.

Under ASU No. 2016-14, 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.

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

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.

Prior to the adoption of this guidance, the Institute had elected the optional method for reporting net assets released for long-lived assets, where net assets with donor restrictions related to long-lived assets were released on a schedule that corresponds with the depreciation schedule of the related property and equipment. As a result of the implementation of ASU 2016-14, net assets with donor restrictions totaling $235.1 million were restated as net assets without donor restrictions in the opening net asset balances of the June 30, 2018 financial statements. Additionally, the fiscal year 2018 net assets released from restriction were decreased by $8.2 million.

The following net asset reclassifications of the opening July 1, 2017 net asset balances were required by the adoption of ASU 2016-14:

	ASU 2016-14 Net Asset Classifications		
Net Asset Classifications	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted	$ 195,485		195,485
Temporarily Restricted		631,772	631,772
Permanently Restricted		440,428	440,428
Net assets as previously presented	195,485	1,072,200	1,267,685
Reclassifications to implement ASU 2016-14:			
Contributions for capital placed in service	235,052	(235,052)	-
Net assets as of July 1, 2017, as reclassified	$ 430,537	$ 837,148	$ 1,267,685

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

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 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 2019. The objects are generally offered for sale at a public auction and the proceeds from such dispositions are classified as with donor restrictions 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 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-free interest rate based on the yield curve for U.S. Treasury securities. Amortization of the discount is recorded as additional contributions.

Prepaid Expenses and Other Assets - 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 cash and cash equivalents restricted for debt service maintained in a restricted pledge proceeds fund, as stipulated in the Series 2009 bond indenture agreement. As of June 30, 2019, the balance in the restricted pledges proceeds fund was liquidated and paid toward debt principal and the Series 2009 bonds were paid off. As of June 30, 2018, the restricted pledge proceeds fund balance was $3.1 million.

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.

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

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 nonoperating revenue, expenses, support, gains, and losses in the statement 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.

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 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 its 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 – 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. The Institute adopted ASU 2014-09 in the fiscal year 2019 financial statements and there was no material impact on the statement of activities. Additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue streams that fall under this guidance are as follows:

The Institute recognizes revenue upon delivery of goods or services in an amount that reflects 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.

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

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, no refund is granted. 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 when the visitor obtains access to the Museum.

Museum Memberships are 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 in advance of occupancy, and revenues from residence halls are recognized ratably over the period of stay. For the years ended June 30, 2019 and 2018, $13.2 million and $12.1 million, respectively, was recognized as residence hall income. Museum shop revenues are 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, 2019 and 2018, $9.0 million and $9.1 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 nonoperating revenues. For the years ended June 30, 2019 and 2018, $13.1 million and $5.8 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 or invoiced but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met. Deferred revenues are classified as liabilities on the statements of financial position and as of June 30, 2019 and 2018, were $13.1 million and $13.5 million, respectively and primarily relate to prepaid membership revenues and summer tuition revenue. Associated accounts receivable for revenue from tuition and housing fees as of June 30, 2019, and 2018, were $4.0 million and $4.2 million, respectively, and allowance for doubtful accounts for tuition revenues as of June 30, 2019 and 2018, were $2.0 million and $1.9 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, 2019 and 2018, 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.

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

The Institute has additional revenue streams that are not within the scope of ASU 2014-09:

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.

In fiscal year 2019, the Institute adopted FASB ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in evaluating whether transactions should be accounted for as contributions or reciprocal transactions. The implementation did not have a material impact on the Institute's financial statements.

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.

Investment returns consist of unrealized and realized gains on investments. Realized gains are recognized at a point in time when the investment is sold. Unrealized gains are recognized at a point in time 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.

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 $9.8 million for tax periods through June 30, 2018. The Institute does not have the ability to estimate the NOL through June 30, 2019, 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 2028 and 2037. The Institute has not recorded a tax benefit for these NOLs for the years ended June 30, 2019 and 2018, 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.

In fiscal year 2019, $30.6 million of net assets that had been designated by the Board for long-term investment in the endowment was transferred from net assets with donor restrictions to net assets without donor restrictions based on the satisfaction of the original restrictions on those funds. The designation by the Board to invest those funds in the endowment remains in place.

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

Financial Assets and Liquidity Resources- As of June 30, 2019, $359.0 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, $336.6 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 $1.0 billion pooled endowment portfolio, $337.9 million was invested in funds with daily liquidity as of June 30, 2019. In addition, the Institute maintains lines of credit totaling $55 million for short-term liquidity needs that may arise.

Other Presentation Matters – In relation to the change in treatment of the timing of net assets released for capital and equipment required by ASU No. 2016-14, in fiscal year 2019, the Institute changed the presentation of the change in net assets from operations in the statement of activities by moving all capital related activities, including contributions restricted for capital and equipment, net assets released for capital and equipment placed in service, and depreciation expense, to nonoperating revenue, expenses, supports, gains, and losses. The fiscal year 2018 statement of activities was revised to incorporate this presentation and as a result, the fiscal year 2018 change in net assets from operations changed from $40.8 million to $68.0 million. The overall change in net assets for fiscal year 2018 remained unchanged at $79.2 million.

Upcoming Accounting Pronouncements Not Yet Adopted - 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 March 2019, the FASB issued ASU No. 2019-03, Not-for-Profit Entities (Topic 958): *Updating the Definition of Collections.* Under this ASU, the definition of the term *collections* has been amended to allow for the use of proceeds from the sale of collection items in the direct care of the collection. The guidance will be effective for fiscal years beginning after December 15, 2019. 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.

Subsequent Events - The Institute evaluated activity through October 4, 2019 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, 2019 and 2018, consist of the following (in thousands):

	2019					
	Pooled		Non Pooled Investments		Total	
Cash and cash equivalents	$ 87,935	8.4 %	829	1.4 %	$ 88,764	8.1 %
Fixed income securities	55,338	5.3	4,909	8.6	60,247	5.5
Equity securities	495,764	47.6	4,800	8.4	500,564	45.5
Hedge funds	256,915	24.6			256,915	23.4
Venture capital and private equity	96,054	9.2			96,054	8.7
Real assets	50,930	4.9			50,930	4.6
Total assets held for investment	1,042,936	100.0	10,538	18.4	1,053,474	95.8
Assets held in trust by others			46,612	81.6	46,612	4.2
Total investments	$ 1,042,936	100.0 %	$ 57,150	100.0 %	$ 1,100,086	100.0 %

	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 %

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 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.

2. INVESTMENTS (continued)

The changes in fair value of assets held for investment and assets held in trust by others as of June 30, 2019 and 2018, exclusive of accrued expenses of $46,000 and $79,000, respectively, are as follows (in thousands):

	For the Year Ended 2019			
	Assets Held for Investment		Assets Held	
Change in fair value:	Pooled	Non Pooled	in Trust	Total
Realized	$ 34,654	$ 293	$ -	$ 34,947
Unrealized	9,402	249		9,651
Dividend and interest income	7,605	221	2,121	9,947
Cash gifts and other additions	19,065		(297)	18,768
Transfers in (out)	1,871	(74)		1,797
Investment management fees	(2,594)	(11)		(2,605)
Allocation of spendable funds	(50,069)	(219)	(2,121)	(52,409)
Net change in fair value	19,934	459	(297)	20,096
Fair value, beginning of year	1,023,002	10,079	46,909	1,079,990
Fair value, end of year	$ 1,042,936	$ 10,538	$ 46,612	$ 1,100,086

	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

Realized and unrealized gains and investment income, net of management fees, 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 in the statements of activities for the years ended June 30, 2019 and 2018.

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, 2019 and 2018, are summarized as follows:

	2019		2018	
	Fair Value	Rate of Return	Fair Value	Rate of Return
Pooled endowment funds investments	$ 1,042,936	5.0%	$ 1,023,003	9.9%

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, 2019 (in thousands):

	2019				
Pooled investments	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ -	$ 87,935	$ -	$ -	$ 87,935
Fixed income securities		55,338			55,338
Equity securities	386,127	109,637			495,764
Hedge funds	256,915				256,915
Venture capital and private equity	96,054				96,054
Real assets	46,887	4,043			50,930
Total pooled investments	785,983	256,953	-	-	1,042,936
Non pooled investments					
Cash and cash equivalents		829			829
Fixed income securities		3,000	1,909		4,909
Equity securities		4,800			4,800
Assets held in trust by others		40,557	4,983	1,072	46,612
Total non pooled investments	-	49,186	6,892	1,072	57,150
Total investments	$ 785,983	$ 306,139	$ 6,892	$ 1,072	$ 1,100,086

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

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, 2019 and 2018, (in thousands):

	2019				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Lockup or Gate
Equity securities	$ 386,127	N/A	Daily-Quarterly	1-60 Days	None
Hedge funds	256,915	10,419	Monthly-Biennially	30-95 Days	None
Venture capital and private equity	96,054	71,757	N/A	N/A	N/A
Real assets	46,887	49,483	N/A	N/A	N/A
Total	$ 785,983	$ 131,659			

	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			

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 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
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 ("deficit"). When donor endowment deficits exist, they are classified as a reduction of net assets with donor restrictions. As of June 30, 2019 and 2018, funds with an original gift value of $5.1 million and $3.4 million were "underwater" by $87,000 and $79,000, respectively.

The Institute's endowment net asset composition (including pledges) as of June 30, 2019 and 2018, is as follows (in thousands):

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Historical value of gifts to be held in perpetuity	$ -	$ 467,464	$ 467,464
Term endowments		22,257	22,257
Appreciation		284,893	284,893
Board-designated endowment funds	336,642	16,123	352,765
Total funds	$ 336,642	$ 790,737	$ 1,127,379

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Historical value of gifts to be held in perpetuity	$ -	$ 462,719	$ 462,719
Term endowments		21,557	21,557
Appreciation		283,735	283,735
Board-designated endowment funds	309,772	44,820	354,592
Total funds	$ 309,772	$ 812,831	$ 1,122,603

3. ENDOWMENT FUNDS (continued)

Board-designated endowment funds were designated for the following purposes:

	2019	2018
Purchase of art objects	$ 7,640	$ 7,909
Purchase of books	1,229	1,232
Student aid	28,944	28,768
Museum exhibitions	7,432	7,408
Museum publications	1,819	1,825
Gallery maintenance, professorships and curatorships	19,465	17,139
Acquisitions or improvements of long-lived assets	82,326	76,949
Education, instruction, and other departmental purpose	41,386	41,431
General purpose	162,524	171,931
Total	$ 352,765	$ 354,592

Changes in endowment net assets for the year ended June 30, 2019, are as follows (in thousands):

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 309,772	$ 812,831	$ 1,122,603
Investment income, net	4,277	5,858	10,135
Net appreciation on pooled and non pooled investments	12,316	29,474	41,790
Net appreciation on assets held in trust		(368)	(368)
Contributions		5,256	5,256
Appropriation of endowment assets for expenditure	(17,770)	(34,639)	(52,409)
Transfers to create board-designated endowment funds	25,504	2,704	28,208
Transfers to remove board-designated endowment funds	(28,036)	(315)	(28,351)
Other changes, net	30,579	(30,064)	515
Endowment net assets, end of year	$ 336,642	$ 790,737	$ 1,127,379

3. ENDOWMENT FUNDS (continued)

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

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 296,321	$ 760,251	$ 1,056,572
Investment income, net	3,768	4,316	8,084
Net appreciation on pooled and non pooled investments	27,554	59,210	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		613	613
Endowment net assets, end of year	$ 309,772	$ 812,831	$ 1,122,603

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 years 2019 and 2018, 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 2019 ranged from 1.93% to 2.27% and for fiscal year 2018 ranged from 2.3% to 2.9%. Contributions receivable are expected to be realized as follows (in thousands):

Collectible during the following periods:	2019	2018
Year one	$ 29,397	$ 14,993
Year two	13,417	23,171
Year three	21,282	3,715
Year four	10,700	1,482
Year five and thereafter	17,846	33,305
Gross contributions receivable	92,642	76,666
Fair value adjustment	(6,175)	(11,821)
Allowance for uncollectible contributions	(2,731)	(2,187)
Net contributions receivable	$ 83,736	$ 62,658

In fiscal year 2019, the Institute adjusted the expected net collectible amount of a pledge receivable from an estate from $9.3 million to $11.3 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 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. Level 2 contributions receivable were $53.6 million and $37.9 million for the fiscal years 2019 and 2018, respectively. Level 3 contributions receivable were $30.2 million and $24.8 million for the fiscal years 2019 and 2018, 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, 2019 and 2018, consist of the following (in thousands):

	2019	2018
Land	$ 34,972	$ 34,972
Buildings and improvements	694,721	690,057
Equipment, furniture, and fixtures	29,633	26,261
Total property and equipment	759,326	751,290
Construction in progress	4,320	4,357
Accumulated depreciation	(342,422)	(316,076)
Property and equipment, net	$ 421,224	$ 439,571

6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities as of June 30, 2019 and 2018, consist of the following (in thousands):

	2019	2018
Accounts payable	$ 20,354	$ 16,525
Art purchase liability	4,845	4,447
Asset retirement obligations	5,831	5,911
Accrued salaries and benefits	5,917	5,575
Accrued interest payable	2,221	2,670
Other liabilities	1,831	2,161
Total accounts payable and other liabilities	$ 40,999	$ 37,289

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 2036. Certain operating leases provide for renewal options for periods from 1 to 10 years. Total lease expenses were $7.7 million and $6.7 million for the years ended June 30, 2019 and 2018, respectively.

Minimum future lease payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2019, are as follows (in thousands):

Years Ending June 30,	
2020	$ 8,130
2021	7,425
2022	7,438
2023	8,067
2024	8,233
Thereafter	43,934
Total minimum lease payments	$ 83,227

8. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2019 and 2018, consist of the following (in thousands):

	Principal 2019	Principal 2018	Final Maturity or Expiration	Principal Payable	Coupon Interest Rates at June 30
Bonds:					
Medium/long-term bonds tax exempt:					
Fixed interest rate revenue bonds:					
Series 2009A[1]	$ -	$ 20,000	3/1/2019	Paid in full in March 2019	5.25%
Series 2010A[1]	45,170	45,170	3/1/2040	At maturity	5.25%
Series 2012A[1]	31,550	32,675	3/1/2034	Varying dates and amounts	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]	20,000	30,000	3/1/2027	Varying dates and amounts	3.23% to 3.78%
Total bonds	133,970	165,095			
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]	-	-	4/30/2021	At expiration	LIBOR or bank reference rate based
JPMorgan Chase					
$15 million working capital line of credit[3,4]	-	-	5/30/2022	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	157,970	189,095			
Unamortized premium, discount, and cost of issuance	7,001	7,600			
Total	$ 164,971	$ 196,695			

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.

8. BONDS AND NOTES PAYABLE (continued)

The fair value of bonds payable as of June 30, 2019 and 2018, is $142.8 million and $172.9 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,	
2020	$ 25,220
2021	1,325
2022	11,280
2023	1,000
2024	1,000
Thereafter	118,145
Total	$ 157,970

The Institute plans to refinance the $24 million term loan due in fiscal year 2020 with a new fixed rate term loan.

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, 2019 and 2018. 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, 2019 and 2018, (in thousands):

	2019	2018
Contributions receivable for acquisition or improvement of long-lived assets funded wholly or partially by debt	13,795	10,462
Portion of perpetual endowments subject to a timing restriction under UPMIFA consistent with state law, these funds are available upon appropriation by the Board	168,776	168,458
Other net assets with donor restrictions available for debt obligations	17,049	20,169
Total net assets with donor restrictions available for debt obligations	$ 199,620	$ 199,089

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 balances of net assets by donor restriction for the years ended June 30, 2019 and 2018, are 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	
	2019	2018	2019	2018	2019	2018
Purchase of art objects	$ 53,943	$ 53,855	$ 62,807	$ 61,446	$ 116,750	$ 115,301
Purchase of books	3,283	3,354	2,394	2,144	5,677	5,498
Student aid	29,876	47,464	46,495	43,329	76,371	90,793
Museum exhibitions	17,336	13,573	26,498	26,458	43,834	40,031
Museum publications	4,519	6,304	3,810	3,710	8,329	10,014
Gallery maintenance, professorships, and curatorships	78,769	76,693	147,834	139,825	226,603	216,518
Acquisitions or improvements of long-lived assets	20,010				20,010	
Education, instruction, and other departmental purposes	130,072	140,048	78,171	71,934	208,243	211,982
Contribution receivable	36,964	19,997	26,164	40,258	63,128	60,255
Assets held in trust by others	494	465	46,116	46,442	46,610	46,907
General purpose	58,739	58,604	27,175	27,173	85,914	85,779
Total	$ 434,005	$ 420,357	$ 467,464	$ 462,719	$ 901,469	$ 883,078

The nature of restrictions on net assets released from donor restrictions for the years ended June 30, 2019 and 2018, are summarized as follows (in thousands):

	Released from Restriction	
	2019	2018
Purchase of art objects	$ 21,787	$ 25,387
Purchase of books	229	217
Student aid	5,725	4,989
Museum exhibitions	4,541	3,955
Museum publications	284	264
Gallery maintenance, professorships, and curatorships	10,064	9,533
Acquisitions or improvements of long-lived assets	553	1,321
Education, instruction, and other departmental purposes	19,412	16,885
Total	$ 62,595	$ 62,551

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, 2019 and 2018 (in thousands):

	2019	2018
Change in benefit obligation		
Benefit obligation—beginning of year	$ 160,170	$ 168,401
Service cost	2,723	2,829
Interest cost	6,782	6,641
Actuarial gain	17,323	(7,453)
Benefits paid	(8,945)	(9,914)
Plan amendments	-	(334)
Projected benefit obligation—end of year	178,053	160,170
Change in plan assets		
Fair value of plan assets—beginning of year	139,075	139,174
Actual return on plan assets	9,389	4,815
Employer contribution	5,000	5,000
Benefits paid	(8,945)	(9,914)
Fair value of plan assets—end of year	144,519	139,075
Funded status at the end of the year	$ (33,534)	$ (21,095)

The pension plan items not yet recognized as a component of periodic pension cost, but included in net assets as of June 30, 2019 and 2018, are as follows (in thousands):

	2019	2018
Net actuarial loss	$ 57,328	$ 45,698
Prior-service cost	1,401	1,708
Net amount recognized	$ 58,729	$ 47,406

The accumulated benefit obligation as of June 30, 2019 and 2018, was $160.0 million and $144.7 million, respectively.

As of June 30, 2019 and 2018, components of net periodic benefit cost for the Plan consist of the following (in thousands):

	2019	2018
Service cost	$ 2,723	$ 2,829
Interest cost	6,782	6,641
Expected return on plan assets	(7,312)	(7,276)
Amortization of prior service credit	307	385
Amortization of net actuarial loss	3,615	4,639
Net periodic benefit cost	$ 6,115	$ 7,218

10. PENSION BENEFITS (continued)

Assumptions - Weighted-average assumptions used to determine the pension benefit obligation as of June 30, 2019 and 2018, are as follows:

	2019	2018
Discount rate	3.65 %	4.31 %
Salary growth rate	3.75	3.75

Weighted-average assumptions used to determine pension net periodic cost for the years ended June 30, 2019 and 2018, are as follows:

	2019	2018
Discount rate	4.31 %	4.00 %
Expected return on plan assets	5.40	5.34
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):

June 30,	
2020	$ 11,069
2021	10,699
2022	11,442
2023	11,915
2024	12,281
2025-2029	59,768

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, 2019 and 2018:

Asset category:	2019	2018	Target Allocation
Equity securities	74 %	75 %	75 %
Fixed income securities and cash and cash equivalents	26	25	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 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 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, 2019 (in thousands):

		2019			
Plan assets, at fair value:	Investments Measured at NAV or equivalent	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 3,010	$ -	$ -	$ -	$ 3,010
Equity securities	45,777	25,860			71,637
Fixed income securities	56,877	12,995			69,872
Total plan assets, at fair value	$ 105,664	$ 38,855	$ -	$ -	$ 144,519

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

Employer Contributions to Retirement Plans - The Institute expects to contribute $5.0 million to its defined benefit pension plan in fiscal year 2020. Employer contributions to the defined contribution plans totaled $5.9 million and $5.3 million, respectively, for the years ended June 30, 2019 and 2018. Employer contributions to the supplemental retirement plan totaled $218,000 and $332,000, respectively, for the years ended June 30, 2019 and 2018.

11. 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, 2019, 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	$ 59,285	$ 18,989	$ 2,098	$ 1,945	$ 2,437	$ 84,754	$ 16,397	$ 6,868	$ 108,019
Fringe benefits	14,921	6,142	586	561	727	22,937	4,944	2,171	30,052
Contracted services	8,447	9,627	685	872	2,568	22,199	3,515	2,159	27,873
Equipment, rental, and maintenance	9,092	1,948	73	149	3,623	14,885	2,247	155	17,287
Travel and entertainment	2,071	1,386	131	83	8	3,679	556	172	4,407
Telephone, copy, fax, and postage	1,278	245	5	54	230	1,812	446	626	2,884
Supplies, books, and subscriptions	1,664	1,781	79	106	285	3,915	135	157	4,207
Publications and printing	1,198	539	63	69	130	1,999	221	665	2,885
Publicity and promotions	1,000	9	-	1,469	3	2,481	78	34	2,593
Cost of sales	329	234	-	43	3,543	4,149	522	-	4,671
Utilities	1,369	2,695	93	-	997	5,154	120	86	5,360
Interest	-	-	-	-	-	-	7,340	-	7,340
Bad debt	-	-	-	-	-	-	790	-	790
Other	3,865	4,756	290	1,106	541	10,558	1,838	1,300	13,696
Total	$ 104,519	$ 48,351	$ 4,103	$ 6,457	$ 15,092	$ 178,522	$ 39,149	$ 14,393	$ 232,064

The nature of operating expenses by function for the year ended June 30, 2018, 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	$ 55,401	$ 17,250	$ 2,094	$ 2,105	$ 2,385	$ 79,235	$ 16,402	$ 6,339	$ 101,976
Fringe benefits	14,472	5,021	612	642	795	21,542	5,905	2,009	29,456
Contracted services	9,079	8,347	601	1,082	2,421	21,530	4,667	1,844	28,041
Equipment, rental, and maintenance	8,940	1,827	100	103	2,793	13,763	2,739	160	16,662
Travel and entertainment	2,224	1,710	108	65	17	4,124	471	186	4,781
Telephone, copy, fax, and postage	1,256	288	13	62	309	1,928	224	495	2,647
Supplies, books, and subscriptions	1,624	1,913	85	99	286	4,007	242	160	4,409
Publications and printing	1,009	761	67	91	184	2,112	176	735	3,023
Publicity and promotions	1,045	21	-	1,536	1	2,603	82	114	2,799
Cost of sales	323	217	-	42	3,874	4,456	13	-	4,469
Utilities	1,337	2,564	88	-	928	4,917	152	91	5,160
Interest	-	-	-	-	-	-	8,095	-	8,095
Bad debt	2	1	-	-	3	6	755	-	761
Other	3,320	3,274	296	579	583	8,052	1,857	615	10,524
Total	$ 100,032	$ 43,194	$ 4,064	$ 6,406	$ 14,579	$ 168,275	$ 41,780	$ 12,748	$ 222,803

SUPPLEMENTARY SCHEDULES

THE ART INSTITUTE OF CHICAGO

SUPPLEMENTAL SCHEDULE OF
OPERATING ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(In thousands)

	Museum	School	Corporate Financial Services*	Total
Operating revenue, gains, and other support:				
Tuition and student program fees	$ -	$ 173,580	$ -	$ 173,580
Student aid		(48,400)		(48,400)
Tuition and student program fees, net		125,180		125,180
Contributions	13,744	1,975		15,719
Chicago Park District tax	5,343			5,343
Museum admissions	18,349			18,349
Membership dues	9,550			9,550
Other program revenues and miscellaneous	3,227	6,276		9,503
Investment return designated for current use	12,407	2,556	2,785	17,748
Auxiliary activities	11,615	14,279		25,894
Net assets released from restrictions	29,587	10,668		40,255
Total operating revenue, gains, and other support	103,822	160,934	2,785	267,541
Expenses and losses:				
Programs services:				
Instructional and academic		104,519		104,519
Curatorial, libraries, and collections	43,082			43,082
Special exhibitions	5,269			5,269
Museum education	4,103			4,103
Other programs	3,774	2,683		6,457
Auxiliary activities	8,470	6,622		15,092
Managerial and general:				
General administration	14,014	17,796		31,810
Interest and debt cost amortization	2,616	2,460	2,263	7,339
Fundraising and member development	11,738	2,655		14,393
Total expenses and losses	93,066	136,735	2,263	232,064
Change in net assets from operations before transfers to quasi-endowment	10,756	24,199	522	35,477
Transfers to quasi-endowment**	5,704	106		5,810
Change in net assets from operations	**$ 16,460**	**$ 24,305**	**$ 522**	**$ 41,287**

*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

SUPPLEMENTAL SCHEDULE OF
EXPENSES BY NATURAL CLASSIFICATION
FOR THE YEAR ENDED JUNE 30, 2019
(In thousands)

	Museum	School	Corporate Financial Services*	Total
Salaries and wages	$ 37,683	$ 70,336	$ -	$ 108,019
Fringe benefits	11,096	18,956		30,052
Contracted services	14,602	13,271		27,873
Equipment, rental, and maintenance	3,579	13,708		17,287
Travel and entertainment	2,028	2,379		4,407
Telephone, copy, fax, and postage	1,299	1,585		2,884
Supplies, books, and subscriptions	2,358	1,849		4,207
Publications and printing	1,421	1,464		2,885
Publicity and promotions	1,369	1,224		2,593
Cost of sales	3,778	893		4,671
Utilities	3,301	2,059		5,360
Bad debt	-	790		790
Interest and debt issuance cost				-
amortization	2,617	2,460	2,263	7,340
Other	7,935	5,761		13,696
Total operating expenses	**93,066**	**136,735**	**2,263**	**232,064**
Depreciation	16,387	11,134	-	27,521
Total expenses, including depreciation	**$ 109,453**	**$ 147,869**	**$ 2,263**	**$ 259,585**

*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.