

THE ART INSTITUTE OF CHICAGO

*Financial Statements for the
Years Ended June 30, 2004 and 2003 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 statements of financial position of The Art Institute of Chicago (the "Institute") as of June 30, 2004 and 2003, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Institute as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we also have issued a report, dated October 11, 2004, on our consideration of the Institute's internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

October 11, 2004

THE ART INSTITUTE OF CHICAGO

STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2004 and 2003

(in thousands)

| | 2004 | 2003 |
|---|-------------------|-------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 2,376 | \$ 2,961 |
| Accounts and investment income receivable | 11,082 | 7,733 |
| Contributions receivable | 34,338 | 25,048 |
| Inventories | 5,030 | 4,399 |
| Prepaid expenses and other assets | 4,873 | 5,330 |
| Property and equipment | 236,633 | 242,547 |
| Long-term investments | 678,400 | 599,431 |
| | | |
| Total assets | \$ 972,732 | \$ 887,449 |
| | | |
| Liabilities and net assets: | | |
| Liabilities: | | |
| Accrued interest payable | \$ 2,478 | \$ 1,993 |
| Accounts payable and other liabilities | 23,739 | 16,582 |
| Accrued pension benefit costs | 5,634 | 18,294 |
| Refundable advances | 2,738 | 2,438 |
| Deferred revenues | 4,412 | 3,852 |
| Notes payable | 250,703 | 268,585 |
| | | |
| Total liabilities | 289,704 | 311,744 |
| | | |
| Net assets: | | |
| Unrestricted | 161,899 | 115,822 |
| Temporarily restricted | 294,945 | 234,913 |
| Permanently restricted | 226,184 | 224,970 |
| | | |
| Total net assets | 683,028 | 575,705 |
| | | |
| Total liabilities and net assets | \$ 972,732 | \$ 887,449 |

See Notes to Financial Statements.

THE ART INSTITUTE OF CHICAGO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004
(in thousands)

| | Unrestricted Funds | Temporarily Restricted Funds | Permanently Restricted Funds | Total |
|---|--------------------------|------------------------------------|------------------------------------|--------------------------|
| Operating revenue, gains, and other support: | | | | |
| Tuition and student program fees | \$ 61,951 | \$ - | \$ - | \$ 61,951 |
| Student aid | (16,052) | | | (16,052) |
| Tuition and student program fees, net | 45,899 | | | 45,899 |
| Contributions | 11,683 | 43,473 | 1,918 | 57,074 |
| Chicago Park District tax | 7,421 | | | 7,421 |
| Museum admissions | 6,414 | | | 6,414 |
| Annual membership dues | 5,391 | | | 5,391 |
| Special exhibitions, catalogues, and other revenues | 1,644 | | | 1,644 |
| Other program revenues | 7,006 | | | 7,006 |
| Investment return designated for current use | 17,048 | 8,730 | 66 | 25,844 |
| Auxiliary activities | 21,247 | | | 21,247 |
| Other | 3,375 | | | 3,375 |
| Net assets released from restrictions | 15,733 | (15,733) | | - |
| Total operating revenue, gains, and other support | <u>142,861</u> | <u>36,470</u> | <u>1,984</u> | <u>181,315</u> |
| Expenses and losses: | | | | |
| Programs services | | | | |
| Curatorial, libraries, and collections | 26,838 | | | 26,838 |
| Special exhibitions | 4,326 | | | 4,326 |
| Museum education | 2,877 | | | 2,877 |
| Other programs | 5,051 | | | 5,051 |
| Instructional and academic | 42,500 | | | 42,500 |
| Auxiliary activities | 15,609 | | | 15,609 |
| Managerial and general | | | | |
| General administration | 20,752 | | | 20,752 |
| Depreciation | 13,113 | | | 13,113 |
| Interest and debt issuance cost | 7,912 | | | 7,912 |
| Member development | 1,819 | | | 1,819 |
| Fund raising | 5,479 | | | 5,479 |
| Total operating expenses | <u>146,276</u> | | | <u>146,276</u> |
| Change in net assets from operations | (3,415) | 36,470 | 1,984 | 35,039 |
| Nonoperating revenue, support, gains and losses: | | | | |
| Proceeds from the sale of art objects | | 4,296 | | 4,296 |
| Contributions for the purchase of art objects | | 1,407 | 87 | 1,494 |
| Net assets released to fund acquisition of art objects | 8,582 | (8,582) | | - |
| Investment return designated for art purchases | 361 | 4,387 | 34 | 4,782 |
| Acquisition of art objects | (8,799) | | | (8,799) |
| Adjustment to reflect minimum pension liability | 8,895 | | | 8,895 |
| Investment return in excess of amounts designated for current operations | 41,242 | 20,248 | 126 | 61,616 |
| Other transfers | (789) | 1,806 | (1,017) | - |
| Change in net assets | 46,077 | 60,032 | 1,214 | 107,323 |
| Net Assets, Beginning of Year | 115,822 | 234,913 | 224,970 | 575,705 |
| Net Assets, End of Year | <u>\$ 161,899</u> | <u>\$ 294,945</u> | <u>\$ 226,184</u> | <u>\$ 683,028</u> |

See Notes to Financial Statements.

THE ART INSTITUTE OF CHICAGO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003
(in thousands)

| | Unrestricted Funds | Temporarily Restricted Funds | Permanently Restricted Funds | Total |
|--|--------------------------|------------------------------------|------------------------------------|--------------------------|
| Operating revenue, gains, and other support: | | | | |
| Tuition and student program fees | \$55,964 | \$ - | \$ - | \$ 5,964 |
| Student aid | (14,389) | | | (14,389) |
| Tuition and student program fees, net | 41,575 | | | 41,575 |
| Contributions | 12,809 | 17,823 | 4,562 | 35,194 |
| Chicago Park District tax | 7,295 | | | 7,295 |
| Museum admissions | 4,590 | | | 4,590 |
| Annual membership dues | 5,183 | | | 5,183 |
| Special exhibitions, catalogues, and other revenues | 993 | | | 993 |
| Other program revenues | 4,797 | | | 4,797 |
| Investment return designated for current use | 19,762 | 10,367 | 156 | 30,285 |
| Auxiliary activities | 21,310 | | | 21,310 |
| Other | 3,679 | | | 3,679 |
| Net assets released from restrictions | 18,823 | (18,823) | | - |
| Total operating revenue, gains, and other support | <u>140,816</u> | <u>9,367</u> | <u>4,718</u> | <u>154,901</u> |
| Expenses and losses: | | | | |
| Programs services | | | | |
| Curatorial, libraries, and collections | 25,010 | | | 25,010 |
| Special exhibitions | 3,839 | | | 3,839 |
| Museum education | 2,953 | | | 2,953 |
| Other programs | 3,387 | | | 3,387 |
| Instructional and academic | 42,616 | | | 42,616 |
| Auxiliary activities | 17,852 | | | 17,852 |
| Managerial and general | | | | |
| General administration | 19,899 | | | 19,899 |
| Depreciation | 14,299 | | | 14,299 |
| Interest and debt issuance cost | 6,532 | | | 6,532 |
| Member development | 2,036 | | | 2,036 |
| Fund raising | 5,070 | | | 5,070 |
| Total operating expenses before building impairment loss | <u>143,493</u> | | | <u>143,493</u> |
| Net change in assets before building impairment loss | <u>(2,677)</u> | <u>9,367</u> | <u>4,718</u> | <u>11,408</u> |
| Building impairment loss | <u>(21,567)</u> | | | <u>(21,567)</u> |
| Change in net assets from operations | (24,244) | 9,367 | 4,718 | (10,159) |
| Nonoperating revenue, support, gains and losses: | | | | |
| Proceeds from the sale of art objects | 7 | 110 | | 117 |
| Contribution for the purchase of art objects | | 932 | 103 | 1,035 |
| Net assets released to fund acquisition of art objects | 8,576 | (8,576) | | - |
| Investment return designated for art purchases | 361 | 4,873 | 31 | 5,265 |
| Acquisition of art objects | (8,859) | | | (8,859) |
| Adjustment to reflect minimum pension liability | (7,201) | | | (7,201) |
| Investment return in excess of amounts designated for current operations | 3,083 | 105 | 11 | 3,199 |
| Other transfers | (2,998) | 3,102 | (104) | - |
| Change in net assets | (31,275) | 9,913 | 4,759 | (16,603) |
| Net Assets, Beginning of Year | 147,097 | 225,000 | 220,211 | 592,308 |
| Net Assets, End of Year | <u>\$ 115,822</u> | <u>\$ 234,913</u> | <u>\$ 224,970</u> | <u>\$ 575,705</u> |

See Notes to Financial Statements.

THE ART INSTITUTE OF CHICAGO

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004 and 2003
(in thousands)

| | <u>2004</u> | <u>2003</u> |
|--|-----------------|-----------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 107,323 | \$ (16,603) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,650 | 14,326 |
| Retirement of property | 944 | 801 |
| Gain on sale of property | (241) | - |
| Impairment loss on property | - | 21,567 |
| Adjustments to reflect minimum pension liability | (8,895) | 7,201 |
| Contributions restricted for permanently restricted endowment | (2,005) | (4,562) |
| Net unrealized and realized gains/losses on long-term investments | (86,839) | (23,482) |
| Acquisitions and sales of art, net | 4,503 | 8,742 |
| Change in assets and liabilities: | | |
| Accounts and investment income receivable | (3,349) | 2,856 |
| Prepaid expenses, other assets and inventories | (1,737) | 1,723 |
| Unrestricted and temporarily restricted contributions receivable | (16,476) | (301) |
| Accrued interest payable | 485 | 229 |
| Accounts payable and other liabilities | (437) | (5,313) |
| Refundable advances | 300 | 86 |
| Deferred revenues | 560 | (2,740) |
| | <u>7,786</u> | <u>4,530</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (13,435) | (9,534) |
| Proceeds from sale of property | 9,362 | - |
| Proceeds from sales of art objects | 4,296 | 117 |
| Acquisition of art objects | (8,799) | (8,859) |
| Proceeds from sales of investments | 291,326 | 722,106 |
| Purchases of investments | (283,456) | (709,124) |
| Net cash used in investing activities | <u>(706)</u> | <u>(5,294)</u> |
| Cash flows from financing activities: | | |
| Proceeds from contributions restricted for permanently restricted endowment | 9,191 | 3,571 |
| Decrease (increase) in assets restricted for debt service | 1,563 | (12) |
| Payments on notes payable | (61,815) | (24,982) |
| Proceeds from notes payable | 43,396 | 13,568 |
| Net cash used in financing activities | <u>(7,665)</u> | <u>(7,855)</u> |
| Net decrease in cash and cash equivalents | <u>(585)</u> | <u>(8,619)</u> |
| Cash and cash equivalents at beginning of year | <u>2,961</u> | <u>11,580</u> |
| Cash and cash equivalents at end of year | <u>\$ 2,376</u> | <u>\$ 2,961</u> |
| Supplemental data: | | |
| Interest paid (net of capitalized interest of \$23 and \$150 in 2004 and 2003, respectively) | <u>\$ 6,558</u> | <u>\$ 5,936</u> |
| Supplemental disclosure of noncash items: | | |
| Property additions included in accounts payable | <u>\$ 3,829</u> | <u>\$ 2,048</u> |

See Notes to Financial Statements.

THE ART INSTITUTE OF CHICAGO

Notes To Financial Statements For The Years Ended June 30, 2004 and 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Art Institute of Chicago (the “Institute”) is a not-for-profit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Institute 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 principles of not-for-profit accounting. A summary of the Institute’s significant accounting policies is set forth below:

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

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

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

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

Permanently restricted net assets are those that are subject to donor-imposed restrictions that will never lapse, thus requiring the assets to be maintained permanently as endowment funds. Net realized and unrealized appreciation on endowment funds is classified in the financial statements as part of either unrestricted, temporarily restricted, or permanently restricted net assets based on donors’ restrictions and interpretations of Illinois law.

Art Objects and Library Collections. The value of the art objects in the permanent collection, as well as the holdings of the libraries, is excluded from the Statements of Financial Position. An addition of a work of art to the permanent collection is made either by a donation from a benefactor or through a purchase from Institute acquisition funds. Institute acquisition funds may be classified as permanently restricted, for which only the income earned on principal balances may be used for acquisitions; temporarily restricted, for which both the principal and earned income may be used for acquisitions; or unrestricted, representing donated funds designated by the Board to be used for acquisitions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Property and Equipment. Legal title to the Institute's Grant Park facility, a significant component of which has been designated a historical monument, and to the land on which it is situated is vested in the Chicago Park District. The sole and permanent right to the use and occupancy of the land and buildings, including any future improvements, was vested at no cost to the Institute in 1893 as long as the Institute uses the property for the purposes for which it is incorporated. Additions and improvements made to the Grant Park facility since 1984 are capitalized at cost, net of related depreciation. Records are not available to permit the capitalization of such costs incurred prior to 1984.

The Institute owns thirteen buildings 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.

One downtown Chicago office building, purchased in 2000, was undergoing renovation with the intention to provide space for the School. During 2003, the Institute decided to sell the property in its current condition. Based on the current real estate market conditions, and in accordance with Statement of Financial Accounting Standard ("SFAS") No. 144, in 2003 management recognized a loss of \$21,567,000 to reduce the carrying value of this property to the estimated sales price. The sale of the building closed during 2004 with a gain on the sale of \$240,000.

Depreciable assets are being depreciated using the straight-line method over the estimated useful lives of the assets. Buildings constructed on Grant Park property have a useful life of 50 years, whereas the purchase and the initial major improvements of all other buildings have a useful life of 40 years. Subsequent building improvements have a useful life of 31.5 years. Equipment, furniture, and fixtures have useful lives ranging from 3 years to 20 years. The Institute revised its estimate of depreciable useful life on computer equipment during 2003. The net effect of this revision was an increase of depreciation expense of \$866,000 in 2003.

Long-term Investments. Investments in equity and debt securities are carried at fair value based upon quoted market prices. Certain investments, for which quoted market prices are not available, are carried at cost and approximate \$2.6 million in 2004 and 2003. Alternative investments are carried at fair market value

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

based upon market prices when available and, when not available, are carried at estimated fair market value based upon appraisals. However, certain alternative investments are carried at the March 31 estimated fair market value and approximate \$10.9 million in 2004 and \$5.3 million in 2003. Capital committed to alternative investments, but not yet called, totaled \$27.3 million in 2004 and \$21.2 million in 2003. Purchases and sales of investments are recorded on trade dates, and realized and unrealized gains and losses are determined on the basis of average cost of securities. Realized and unrealized appreciation or depreciation in the carrying value of investments is classified as part of either unrestricted, temporarily restricted, or permanently restricted net assets in accordance with applicable donor requirements. Included in long-term investments are funds held in trust by others, the income from which is paid in whole or in part to the Institute, and split-interest gifts, the principal of which will be turned over to the Institute at some future date.

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

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

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

Membership Development Activities. Membership development activities include identifying and offering memberships to prospective members, member relations, and member communications. The imputed value of membership benefits provided to upper level and Sustaining Fellow members approximate \$798,000 in 2004 and \$935,000 in 2003. Proceeds from upper level and Sustaining Fellow members are included in contributions.

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

Endowment Funds. The Institute established the Endowment Funds for the purpose of investing assets in a manner that preserves the real value of the endowment principal and, in addition, provides spendable funds that can be used to fulfill the purposes for which the endowments were established. All Permanently Restricted Net Assets, as well as a significant portion of the Institute's Unrestricted Net Assets and Temporarily Restricted Net Assets, are classified as Endowment Funds. Additions to the Endowment Funds primarily originate from Permanently Restricted Gifts or actions taken by the Board to designate funds as endowment, as well as unrestricted bequests and unspent returns on Endowment Funds investments that are added to the Endowment Funds net assets either at the direction of the donor or as a matter of policy.

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

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

Reclassification. Certain reclassifications have been made to the 2003 balances to conform to the 2004 presentation.

New Accounting Pronouncements. In December 2003, the Financial Accounting Standards Board (FASB) issued a revision to Statement of Financial Accounting Standards No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, which revises employers' disclosures but does not change the measurement or recognition of those plans. The Institute implemented the requirements of SFAS 132(R) in 2004.

2. LONG-TERM INVESTMENTS

Long-term investments at June 30, 2004 and 2003 consist of the following (in thousands):

| | 2004 | | | 2003 | | |
|----------------------------------|--------------------|------------------------|------------|--------------------|------------------------|------------|
| | Pooled Investments | Non-Pooled Investments | Total | Pooled Investments | Non-Pooled Investments | Total |
| Cash and cash equivalents | \$ 19,092 | \$ 38,168 | \$ 57,260 | \$ 75,329 | \$ 28,805 | \$ 104,134 |
| Fixed income securities | 129,526 | 2,737 | 132,263 | 104,334 | 2,820 | 107,154 |
| Equity securities | 275,637 | 3,761 | 279,398 | 253,983 | 3,424 | 257,407 |
| Alternative investments | 102,509 | - | 102,509 | 48,688 | - | 48,688 |
| Other investments | 52,420 | 3,417 | 55,837 | 30,165 | 4,686 | 34,851 |
| Total assets held for investment | 579,184 | 48,083 | 627,267 | 512,499 | 39,735 | 552,234 |
| Assets held in trust by others | - | 51,133 | 51,133 | - | 47,197 | 47,197 |
| Total long-term investments | \$ 579,184 | \$ 99,216 | \$ 678,400 | \$ 512,499 | \$ 86,932 | \$ 599,431 |

Long-term investments by designation at June 30, 2004 and 2003 as a percentage consist of the following:

| | 2004 | | | 2003 | | |
|----------------------------------|--------------------|------------------------|--------|--------------------|------------------------|--------|
| | Pooled Investments | Non-Pooled Investments | Total | Pooled Investments | Non-Pooled Investments | Total |
| Cash and cash equivalents | 3.3% | 38.5% | 8.5% | 14.7% | 33.2% | 17.4% |
| Fixed income securities | 22.4 | 2.8 | 19.5 | 20.4 | 3.2 | 17.9 |
| Equity securities | 47.6 | 3.8 | 41.1 | 49.6 | 3.9 | 42.9 |
| Alternative investments | 17.7 | - | 15.1 | 9.5 | - | 8.1 |
| Other investments | 9.1 | 3.4 | 8.3 | 5.9 | 5.4 | 5.8 |
| Total assets held for investment | 100.0 | 48.5 | 92.5 | 100.0 | 45.7 | 92.1 |
| Assets held in trust by others | - | 51.5 | 7.5 | - | 54.3 | 7.9 |
| Total long-term investments | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Alternative investments include marketable and non-marketable funds. Other investments include real estate, commodities and other inflation hedge assets. Non-Pooled Investments include \$37.6 million at June 30, 2004 held in a short-term investment account for the new museum wing.

The Pooled Investments are invested in a widely diversified portfolio. At June 30, 2003, 14.7 percent of the Pooled Investments portfolio was held in cash equivalents, pending later investment in alternative and other investments, which occurred in 2004.

The changes in fair value of assets held for long-term investment and assets held in trust by others for the year ended June 30, 2004 and 2003 were as follows (in thousands):

| | 2004 | | |
|-------------------------------|----------------------------|--------------------------------|------------|
| | Assets Held for Investment | Assets Held in Trust by Others | Total |
| Net gain in market value: | | | |
| Realized | \$ 23,924 | \$ 25 | \$ 23,949 |
| Unrealized | 59,654 | 3,236 | 62,890 |
| Dividend and interest income | 7,665 | 2,134 | 9,799 |
| Gifts and other additions | 26,130 | 893 | 27,023 |
| Allocation of spendable funds | (42,340) | (2,352) | (44,692) |
| Change in fair value | 75,033 | 3,936 | 78,969 |
| Fair value, beginning of year | 552,234 | 47,197 | 599,431 |
| Fair value, end of year | \$ 627,267 | \$ 51,133 | \$ 678,400 |

2. LONG-TERM INVESTMENTS (continued)

| | 2003 | | |
|----------------------------------|-------------------------------|--------------------------------------|------------|
| | Assets Held for Investment | Assets Held in Trust by Others | Total |
| Net gain (loss) in market value: | | | |
| Realized | \$ 16,863 | \$ - | \$ 16,863 |
| Unrealized | 8,715 | (2,096) | 6,619 |
| Dividend and interest income | 7,896 | 3,012 | 10,908 |
| Gifts and other additions | 25,381 | 225 | 25,606 |
| Allocation of spendable funds | (41,922) | (7,574) | (49,496) |
| Change in fair value | 16,933 | (6,433) | 10,500 |
| Fair value, beginning of year | 535,301 | 53,630 | 588,931 |
| Fair value, end of year | \$ 552,234 | \$ 47,197 | \$ 599,431 |

Because long-term investments include funds derived originally from permanently restricted gifts, the management of these funds is subject to Illinois state law. The Institute has interpreted state law as requiring the preservation of the original dollar value of these permanently restricted gifts. After maintaining this value, the Institute interprets the law as allowing it to use any of the investment returns as is prudent considering the Institute's long- and short-term needs, expected total return on its investments, price level trends, and general economic conditions. The Institute is monitoring permanently restricted gifts in which historical cost exceeds market value as of June 30, 2004 and 2003. Historical cost exceeds market value for certain gifts by approximately \$1.1 million and \$3.9 million, respectively.

In accordance with this interpretation, the Institute adopted a long-term investment objective of sustaining the buying power of the investment principal through limiting the spendable portion of the annual total returns. This spendable amount for the years ended June 30, 2004 and 2003, which is classified in the revenues section of the Statements of Activities, was equal to 5% of the average market value of assets over twelve quarter periods ending December 31, 2003 and 5.25% of the average market value of assets for the six semi-annual periods ending December 31, 2002. Additions to principal were factored in on a weighted-average basis through June 30, 2004 and 2003. Prior year accumulated capital gains are utilized to the extent necessary to meet the annual spendable objective.

Prior to December 31, 2002, two separate pooled investment funds were maintained. These funds were combined on January 1, 2003, and are included in the fair market value of the assets above. The market values (in thousands) and the rates of investment return on these pooled investments for the years ended June 30, 2004 and 2003 are summarized as follows:

| | 2004 | | 2003 | |
|------------------------------------|----------------------|-------------------|----------------------|-------------------|
| | Fair Market Value | Rate of Return | Fair Market Value | Rate of Return |
| Pooled Endowment Funds Investments | \$ 579,184 | 17.8% | \$ 512,499 | 8.7% |

The annualized rate of return is net of management fees. It is computed using monthly net returns of individual investment managers. Individual manager returns are calculated using a weighted average capital base, which is determined by the beginning fair market value plus the weighted average of net monthly additions.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2004 and 2003 consist of (in thousands):

| Collectible during the following periods: | 2004 | 2003 |
|---|-----------------|------------------|
| Year one | \$ 19,356 | \$ 13,005 |
| Year two | 7,374 | 9,212 |
| Year three | 4,380 | 2,862 |
| Year four | 4,127 | 1,228 |
| Year five and thereafter | 3,228 | 1,171 |
| Gross contributions receivable | 38,465 | 27,478 |
| Present value discount | (2,736) | (1,119) |
| Allowance for uncollectible contributions | (1,391) | (1,311) |
| Net contributions receivable | <u>\$34,338</u> | <u>\$ 25,048</u> |

The present value discount rates for June 30, 2004 and 2003 were 3.8% and 2.4%, respectively.

4. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2004 and 2003 consist of (in thousands):

| | 2004 | 2003 |
|--|-------------------|-------------------|
| Land | \$ 15,975 | \$ 19,975 |
| Buildings and improvements | 251,917 | 248,167 |
| Equipment, furniture, and fixtures | 25,577 | 27,638 |
| Total property and equipment | 293,469 | 295,780 |
| Accumulated depreciation | (82,262) | (71,243) |
| Net depreciable property and equipment | 211,207 | 224,537 |
| Construction/systems in progress | 25,426 | 18,010 |
| Net property and equipment | <u>\$ 236,633</u> | <u>\$ 242,547</u> |

5. NOTES PAYABLE

Notes payable at June 30, 2004 consist of (in thousands):

| | Principal Amount | % of Total Bonds | % of Total O/S Debt | Date of Maturity | Principal Payable | Interest Payment Dates | Interest Reset Period | Interest Rates |
|---|---------------------|------------------------|---------------------------|---------------------|------------------------------|---------------------------|--------------------------|-------------------|
| Bonds: | | | | | | | | |
| Variable / Short-term: | | | | | | | | |
| Adjustable Interest Rates, Demand Revenue - Tax-exempt: | | | | | | | | |
| Series 2000A | \$ 6,000 | | | 3/1/2034 | At maturity | Monthly | Weekly | 1.05% |
| Series 1996 | 31,700 | | | 3/1/2027 | At maturity | Monthly | Weekly | 1.05% |
| Series 1995 | 22,000 | | | 3/1/2027 | At maturity | Monthly | Weekly | 1.05% |
| Series 1992 | 18,000 | | | 3/1/2027 | At maturity | Monthly | Weekly | 1.05% |
| Total Variable / Short-Term | <u>77,700</u> | 34.67% | 31.07% | | | | | |
| Medium / Long-Term: | | | | | | | | |
| Adjustable Interest Rates, Demand Revenue - Tax Exempt: | | | | | | | | |
| Series 2000A | 80,800 | | | 3/1/2034 | At maturity | March 1, September 1 | 4-11 years | 3.10% to 4.45% |
| Taxable: | | | | | | | | |
| Series 2000B | 7,100 | | | 3/1/2034 | At maturity | Monthly | Weekly | 1.38% |
| Medium Term Revenue: | | | | | | | | |
| Tax-exempt: | | | | | | | | |
| Series 1998A | 32,130 | | | 3/1/2030 | At maturity | March 1, September 1 | 1 - 5 years | 2.25% to 4.85% |
| Taxable: | | | | | | | | |
| Series 1998B | 8,835 | | | 3/1/2030 | At maturity | March 1, September 1 | 1 - 5 years | 3.85% to 4.85% |
| Fixed Interest Rates: | | | | | | | | |
| Revenue Refunding: | | | | | | | | |
| Series 2003 | 17,550 | | | 3/1/2023 | Varying dates and amounts | March 1, September 1 | N/A | 2.50% to 5.38% |
| Total Medium / Long-Term | <u>146,415</u> | <u>65.33%</u> | <u>58.54%</u> | | | | | |
| Total Bonds | <u>224,115</u> | <u>100.0%</u> | 89.61% | | | | | |
| Bank Debt: | | | | | | | | |
| Northern Trust Term Loan | 9,600 | | | 6/30/2005 | At maturity | Quarterly | N/A | 2.33% |
| Northern Trust Term Loan | 9,800 | | | 6/30/2006 | At maturity | Quarterly | N/A | 3.26% |
| \$20 million JP Morgan Line of Credit | <u>5,500</u> | | | 5/30/2005 | On demand | Varying dates | Varying Dates | 1.78% |
| Total Bank Debt | <u>24,900</u> | | <u>9.96%</u> | | | | | |
| Auxiliary activity note | 1,087 | | 0.43% | 5/1/2013 | On demand | Monthly | N/A | 1.09% to 4.24% |
| Total Outstanding Debt | 250,102 | | <u>100.0%</u> | | | | | |
| Unamortized premium | <u>601</u> | | | | | | | |
| Total | <u>\$250,703</u> | | | | | | | |

5. NOTES PAYABLE (continued)

Notes payable at June 30, 2003 consist of (in thousands):

| | Principal Amount | % of Total Bonds | % of Total O/S Debt | Date of Maturity | Principal Payable | Interest Payment Dates | Interest Reset Period | Interest Rates |
|---|---------------------|------------------------|---------------------------|---------------------|------------------------------|---------------------------|--------------------------|-------------------|
| Bonds: | | | | | | | | |
| Variable / Short-term: | | | | | | | | |
| Adjustable Interest Rates, Demand Revenue - Tax-exempt: | | | | | | | | |
| Series 2000A | \$ 86,800 | | | 3/1/2034 | At maturity | Monthly | Weekly | 1.05% |
| Series 1996 | 31,700 | | | 3/1/2027 | At maturity | Monthly | Weekly | 1.05% |
| Series 1995 | 22,000 | | | 3/1/2027 | At maturity | Monthly | Weekly | 1.05% |
| Series 1992 | 18,000 | | | 3/1/2027 | At maturity | Monthly | Weekly | 1.05% |
| Total Variable / Short-Term | <u>158,500</u> | 70.1% | 58.9% | | | | | |
| Medium / Long-Term: | | | | | | | | |
| Adjustable Interest Rates, Demand Revenue - Taxable: | | | | | | | | |
| Series 2000B | 7,100 | | | 3/1/2034 | At maturity | Monthly | Weekly | 1.25% |
| Medium Term Revenue: | | | | | | | | |
| Tax-exempt: | | | | | | | | |
| Series 1998A | 32,130 | | | 3/1/2030 | At maturity | March 1, September 1 | 1 - 6 years | 2.25% to 4.85% |
| Taxable: | | | | | | | | |
| Series 1998B | 8,835 | | | 3/1/2030 | At maturity | March 1, September 1 | 2 - 6 years | 3.85% to 4.85% |
| Fixed Interest Rates: | | | | | | | | |
| Revenue Refunding: | | | | | | | | |
| Series 1993 | 19,700 | | | 3/1/2027 | Varying dates and amounts | March 1, September 1 | N/A | 5.50% to 5.80% |
| Total Medium / Long-Term | <u>67,765</u> | 29.9% | 25.2% | | | | | |
| Total Bonds | <u>226,265</u> | <u>100.0%</u> | 84.1% | | | | | |
| Lines of Credit: | | | | | | | | |
| \$35 million Northern Trust | 33,133 | | | 5/1/2004 | At maturity | Quarterly | Varying Dates | 1.39% |
| \$25 million Bank One | 9,500 | | | 5/30/2004 | On demand | Varying dates | Varying Dates | 1.71% |
| Total Lines of Credit | <u>42,633</u> | | <u>15.8%</u> | | | | | |
| Auxiliary activity note | <u>339</u> | | <u>0.1%</u> | 5/1/2013 | On demand | Monthly | N/A | 1.09% |
| Total Outstanding Debt | 269,237 | | <u>100.0%</u> | | | | | |
| Unamortized discount and issuance expenses | <u>(652)</u> | | | | | | | |
| Total | <u>\$268,585</u> | | | | | | | |

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

The Institute entered an interest swap agreement on December 6, 2000, with J.P. Morgan (formerly known as Bank One). The swap agreement, which expires on January 1, 2006, effectively fixes the interest rate on the 2000B issue at 6.58% and is recorded as a liability with an estimated fair value at June 30, 2004 and 2003 of \$(397,000) and \$(828,000), respectively.

5. NOTES PAYABLE (continued)

The Institute has agreed to maintain certain financial ratios related to debt service, including ratios of indebtedness to net assets and assets available for debt service to debt service requirements. Minimum mandatory redemption payments on the Illinois Finance Authority Bond Issues, which approximate minimum sinking fund requirements, are \$375,000 per year for each of the next three years, and an additional total of \$222,990,000 through the ultimate maturity dates of the bonds.

On July 1, 2003, \$80,800,000 of tax-exempt Series 2000A Bonds were converted from a weekly rate mode to fixed rate periods of five to twelve years at interest rates ranging from 3.10% to 4.45% with a final maturity date of March 1, 2034.

On July 9, 2003, the Series 1993 Bond Issue was refinanced through the issuance of \$18,105,000 Series 2003 Revenue Refunding Bonds payable in varying amounts through March 1, 2023, with fixed interest payment dates of March 1 and September 1. The bonds bear interest rates ranging from 2.50% to 5.38%.

6. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Institute has a qualified, non-contributory defined benefit pension plan (the "Plan") covering staff employees who meet the Plan's eligibility. Eligible faculty of the School participate in a defined contribution plan in lieu of participation in the Institute's pension plan. A supplemental retirement plan is provided for certain employees whose benefits are restricted under the qualified Plan. The Institute also provides medical, dental, and life insurance benefits ("Other Benefits") to certain Plan retirees on a contributory basis until the retirees attain the age of 65.

The following table sets forth the Plan's benefit obligation, plan assets and funded status reconciled with the amounts set forth in the statement of financial position at June 30, 2004 and 2003 (in thousands):

| | Pension Benefits | | Other Benefits | |
|--|------------------|------------------|-----------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Change in benefit obligation | | | | |
| Benefit obligation at beginning of year | \$ 64,325 | \$ 50,325 | \$ 667 | \$ 4,055 |
| Service cost | 2,400 | 1,987 | 16 | 239 |
| Interest cost | 3,876 | 3,718 | 40 | 191 |
| Amendments | (2,129) | - | (8) | (3,697) |
| Actuarial loss (gain) | (3,636) | 10,390 | - | (56) |
| Benefits paid | (2,340) | (2,095) | (65) | (65) |
| Projected benefit obligation at end of year | <u>\$ 62,496</u> | <u>\$ 64,325</u> | <u>\$ 650</u> | <u>\$ 667</u> |
| Change in plan assets | | | | |
| Fair value of plan assets at beginning of year | \$ 37,111 | \$ 33,806 | \$ - | \$ - |
| Actual return on plan assets | 5,564 | 2,356 | - | - |
| Employer contribution | 9,533 | 3,044 | - | - |
| Benefits paid | (2,340) | (2,095) | - | - |
| Fair value of plan assets at end of year | <u>\$ 49,868</u> | <u>\$ 37,111</u> | <u>\$ -</u> | <u>\$ -</u> |
| Funded status | \$(12,628) | \$(27,214) | \$ (650) | \$ (667) |
| Unrecognized net actuarial loss (gain) | 23,602 | 32,277 | 8 | 16 |
| Unrecognized prior service cost (benefit) | (2,163) | (17) | (27) | (31) |
| Net amount recognized | <u>\$ 8,811</u> | <u>\$ 5,046</u> | <u>\$ (669)</u> | <u>\$ (682)</u> |

6. PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

Amounts recognized in the statement of financial position consist of (in thousands):

| | Pension Benefits | | Other Benefits | |
|---------------------------|------------------|-----------------|-----------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Prepaid benefit cost | \$ - | \$ - | \$ - | \$ - |
| Accrued benefit cost | (5,634) | (18,294) | (669) | (682) |
| Intangible assets | - | - | - | - |
| Minimum pension liability | 14,445 | 23,340 | - | - |
| Net amount recognized | <u>\$ 8,811</u> | <u>\$ 5,046</u> | <u>\$ (669)</u> | <u>\$ (682)</u> |

Information for pension plans with an accumulated benefit obligation in excess of plan assets (in thousands):

| | 2004 | 2003 |
|--------------------------------|----------|----------|
| Projected benefit obligation | \$62,496 | \$64,325 |
| Accumulated benefit obligation | 55,502 | 55,405 |
| Fair value of plan assets | 49,868 | 37,111 |

Components of Net Periodic Benefit Cost (in thousands):

| | Pension Benefits | | Other Benefits | |
|------------------------------------|------------------|-----------------|----------------|-------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Service cost | \$ 2,400 | \$ 1,987 | \$ 16 | \$ 239 |
| Interest cost | 3,876 | 3,718 | 40 | 191 |
| Expected return on plan assets | (2,991) | (3,236) | - | - |
| Amortization of prior service cost | 18 | (16) | (4) | (134) |
| Amortization of net loss | 2,466 | 1,982 | - | 25 |
| Curtailment (gain) | - | - | - | (3,403) |
| Net periodic benefit cost | <u>\$ 5,769</u> | <u>\$ 4,435</u> | <u>\$ 52</u> | <u>\$ (3,082)</u> |

Additional Information

| | Pension Benefits | | Other Benefits | |
|---|------------------|----------|----------------|------|
| | 2004 | 2003 | 2004 | 2003 |
| Change in minimum liability in pension expense (in thousands) | \$(8,895) | \$ 7,201 | N/A | N/A |

Assumptions

Weighted-average assumptions used to determine benefit obligations at June 30,

| | Pension Benefits | | Other Benefits | |
|-------------------------------|------------------|-------|----------------|-------|
| | 2004 | 2003 | 2004 | 2003 |
| Discount rate | 6.50% | 6.25% | 6.5% | 6.25% |
| Rate of compensation increase | 4.20 | 4.20 | N/A | N/A |

Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30,

| | Pension Benefits | | Other Benefits | |
|--|------------------|-------|----------------|-------|
| | 2004 | 2003 | 2004 | 2003 |
| Discount rate | 6.25% | 7.25% | 6.5% | 6.25% |
| Expected long-term return on plan assets | 7.50 | 9.50 | N/A | N/A |
| Rate of compensation increase | 4.20 | 4.20 | N/A | N/A |

6. PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

Assumed health care cost trend rates at June 30,

| | Other Benefits | |
|---|----------------|------|
| | 2004 | 2003 |
| Health care cost trend rate assumed for next year | 6% | 6% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 6% | 6% |
| Year that the rate reaches the ultimate trend rate | 2005 | 2004 |

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

| | 1-Percentage- Point Increase | 1-Percentage Point Decrease |
|--|---------------------------------|--------------------------------|
| Effect on total of service and interest cost | \$3 | \$(2) |
| Effect on postretirement benefit obligation | 25 | (25) |

Plan Assets

The Institute's pension plan weighted-average asset allocations at June 30, 2004 and 2003, by asset category are as follows:

| <u>Asset Category</u> | Pension | |
|---------------------------|-------------|-------------|
| | 2004 | 2003 |
| Cash and cash equivalents | 2% | 43% |
| Equity securities | 55 | 51 |
| Fixed income securities | 28 | - |
| Alternative investments | 9 | - |
| Other | 6 | 6 |
| Total | <u>100%</u> | <u>100%</u> |

The Institute determines the long-term rate of return on Plan assets by examining the Plan's asset allocation, historical capital market returns and inflation assumptions. Historical Institute returns and benchmarking data are also reviewed to ensure a reasonable and appropriate return assumption.

Contributions

The Institute expects to contribute \$1,742,000 to its pension plan and \$79,000 to its other postretirement benefit plan in 2005.

Estimated Future Benefit Payments

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

| | Pension Benefits | Other Benefits |
|-----------|---------------------|-------------------|
| 2005 | \$ 2,589 | \$ 79 |
| 2006 | 2,749 | 84 |
| 2007 | 2,900 | 91 |
| 2008 | 3,136 | 98 |
| 2009 | 3,300 | 113 |
| 2010-2014 | 20,216 | 433 |

6. PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

Employer contributions to the defined contribution plan totaled \$735,000 and \$652,000, respectively, for the years ended June 30, 2004 and 2003. Employer contributions to the supplemental retirement plan totaled \$197,000 and \$160,000, respectively, for the years ended June 30, 2004 and 2003.

The Institute made significant modifications to its retiree health and life plan in 2003. Participation for active employees was curtailed as of July 1, 2003 with the exception of certain active employees based on age and service requirements. The individual contribution levels for all current and future plan participants also increased. As a result, the health and life retiree plan experienced a curtailment gain of \$3,403,000 in 2003.

In late 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). Specific guidance on the accounting and disclosure requirements related to this Act is pending and that guidance, when issued, could require the Institute to change previously reported information. Until the guidance is issued, the Institute has chosen to defer implementing the impact of the Act on the measurement of the Institute's accumulated postretirement benefit obligation (APBO) or net periodic postretirement benefit costs under the provisions of the Financial Accounting Standard's Board's Staff Position No. FAS 106-1 (FSP). Consequently, any measures of the APBO or net periodic postretirement benefit cost in the financial statements or accompanying notes do not reflect the effects of the Act on the Institute's postretirement medical benefits plan.

7. NATURAL CLASSIFICATION OF EXPENSES

Expenses by natural classification for operating activities for the year ended June 30, 2004 are as follows (in thousands):

| | <u>Museum</u> | <u>School</u> | <u>Total Unrestricted</u> | <u>% of Total</u> |
|-----------------------------------|------------------|------------------|-------------------------------|-------------------|
| Salaries and wages | \$ 24,246 | \$30,903 | \$ 55,149 | 37.7% |
| Fringe benefits | 9,129 | 9,687 | 18,816 | 12.9 |
| Contracted services | 6,620 | 5,533 | 12,153 | 8.3 |
| Equipment and maintenance | 1,390 | 2,900 | 4,290 | 2.9 |
| Travel and entertainment | 1,541 | 779 | 2,320 | 1.6 |
| Telephone, copy, fax, postage | 1,128 | 1,045 | 2,173 | 1.5 |
| Supplies, books and subscriptions | 1,624 | 782 | 2,406 | 1.6 |
| Publications and printing | 2,035 | 991 | 3,026 | 2.1 |
| Publicity and promotions | 912 | 854 | 1,766 | 1.2 |
| Cost of sales | 6,913 | 83 | 6,996 | 4.8 |
| Utilities | 2,075 | 1,827 | 3,902 | 2.7 |
| Bad debt | 10 | 774 | 784 | 0.5 |
| Interest | 2,356 | 5,556 | 7,912 | 5.4 |
| Depreciation | 6,107 | 7,006 | 13,113 | 9.0 |
| Other | 7,493 | 3,977 | 11,470 | 7.8 |
| Total | <u>\$ 73,579</u> | <u>\$ 72,697</u> | <u>\$146,276</u> | <u>100%</u> |

Expenses by natural classification for operating activities for the year ended June 30, 2003 are as follows (in thousands):

| | <u>Museum</u> | <u>School</u> | <u>Total Unrestricted</u> | <u>% of Total</u> |
|-----------------------------------|------------------|------------------|-------------------------------|-------------------|
| Salaries and wages | \$ 25,941 | \$ 32,984 | \$ 58,925 | 35.7% |
| Fringe benefits | 6,816 | 8,052 | 14,868 | 9.0 |
| Contracted services | 7,756 | 4,802 | 12,558 | 7.6 |
| Equipment and maintenance | 1,773 | 2,817 | 4,590 | 2.8 |
| Travel and entertainment | 1,441 | 758 | 2,199 | 1.3 |
| Telephone, copy, fax, postage | 1,234 | 932 | 2,166 | 1.3 |
| Supplies, books and subscriptions | 1,792 | 801 | 2,593 | 1.6 |
| Publications and printing | 2,306 | 904 | 3,210 | 1.9 |
| Publicity and promotions | 1,051 | 850 | 1,901 | 1.2 |
| Cost of sales | 7,575 | 73 | 7,648 | 4.6 |
| Utilities | 2,047 | 1,653 | 3,700 | 2.2 |
| Bad debt | 12 | (161) | (149) | -0.1 |
| Interest | 2,256 | 4,276 | 6,532 | 4.0 |
| Depreciation | 6,499 | 7,800 | 14,299 | 8.7 |
| Other | 4,798 | 3,655 | 8,453 | 5.1 |
| Subtotal | <u>73,297</u> | <u>70,196</u> | <u>143,493</u> | <u>86.9</u> |
| Impairment loss | <u>-</u> | <u>21,567</u> | <u>21,567</u> | <u>13.1</u> |
| Total | <u>\$ 73,297</u> | <u>\$ 91,763</u> | <u>\$165,060</u> | <u>100.0%</u> |

8. OPERATING LEASES

The Institute leases academic, office, storage, and retail space and equipment. Total lease expense was \$432,000 and \$707,000 during the years ended June 30, 2004 and 2003, respectively.

Future lease payments under operating leases are as follows (in thousands):

| <u>Year</u> | |
|------------------------------|---------------|
| 2005 | \$ 488 |
| 2006 | 295 |
| 2007 | 84 |
| 2008 | 27 |
| 2009 | 7 |
| Total minimum lease payments | <u>\$ 901</u> |

9. RESTRICTIONS ON NET ASSETS

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

| | <u>2004</u> | <u>2003</u> |
|---|------------------|------------------|
| Purchase of art objects | \$ 7,492 | \$ 6,918 |
| Purchase of books | 242 | 232 |
| Student aid | 1,844 | 3,690 |
| Museum exhibitions | 1,967 | 3,567 |
| Museum publications | 224 | 140 |
| Gallery maintenance, professorships, and curatorships | 99 | 7,630 |
| Education, instruction, and other | 12,447 | 5,222 |
| Total | <u>\$ 24,315</u> | <u>\$ 27,399</u> |

9. RESTRICTIONS ON NET ASSETS (continued)

Net assets categorized by donor restrictions as of June 30, 2004 are summarized as follows (in thousands):

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> |
|--|-----------------------------------|-----------------------------------|
| Purchase of art objects | \$ 84,529 | \$ 31,576 |
| Purchase of books | 278 | 1,626 |
| Student aid | 15,883 | 15,104 |
| Museum exhibitions | 3,027 | 10,385 |
| Museum publications | 2,795 | 1,510 |
| Gallery maintenance, professorships, and curatorships | 74,286 | 48,066 |
| Education, instruction, and other | 86,923 | 36,842 |
| Time-restricted net assets/assets held in trust by others | 27,224 | - |
| General purposes | - | 53,993 |
| Other | - | 27,082 |
| Total | <u>\$ 294,945</u> | <u>\$ 226,184</u> |

Net assets categorized by donor restrictions as of June 30, 2003 are summarized as follows (in thousands):

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> |
|--|-----------------------------------|-----------------------------------|
| Purchase of art objects | \$ 71,375 | \$ 31,386 |
| Purchase of books | 192 | 1,613 |
| Student aid | 13,006 | 14,663 |
| Museum exhibitions | 2,143 | 10,354 |
| Museum publications | 2,165 | 1,510 |
| Gallery maintenance, professorships, and curatorships | 60,790 | 46,278 |
| Education, instruction, and other | 73,416 | 37,512 |
| Time-restricted net assets/assets held in trust by others | 11,826 | - |
| General purposes | - | 57,313 |
| Other | - | 24,341 |
| Total | <u>\$ 234,913</u> | <u>\$ 224,970</u> |

10. UNRESTRICTED STATEMENT OF ACTIVITIES BY PROGRAM

Unrestricted activity for Museum for the years 2004 and 2003 are as follows (in thousands):

| | Museum | |
|---|-----------------|-----------------|
| | 2004 | 2003 |
| Operating revenue, gains, and other support: | | |
| Contributions | \$ 9,148 | \$ 9,731 |
| Chicago Park District tax | 7,421 | 7,295 |
| Museum admissions | 6,414 | 4,590 |
| Annual membership dues | 5,391 | 5,183 |
| Special exhibitions | 1,644 | 993 |
| Other program revenues | 4,443 | 3,135 |
| Investment return designated for current use | 11,689 | 13,745 |
| Auxiliary activities | 15,023 | 15,458 |
| Other | 1,061 | 1,436 |
| Net assets released from restrictions | 12,415 | 12,731 |
| Total operating revenue, gains, and other support | <u>74,649</u> | <u>74,297</u> |
| Expenses and losses: | | |
| Programs services | | |
| Curatorial, libraries, and collections | 26,838 | 25,010 |
| Special exhibitions | 4,326 | 3,839 |
| Museum education | 2,877 | 2,953 |
| Other programs | 3,142 | 2,069 |
| Auxiliary activities | 12,675 | 15,499 |
| Managerial and general | | |
| General administration | 9,679 | 9,406 |
| Depreciation | 6,097 | 6,486 |
| Interest and debt issuance cost | 2,341 | 2,238 |
| Member development | 1,819 | 2,036 |
| Fund raising | 3,785 | 3,761 |
| Total operating expenses | <u>73,579</u> | <u>73,297</u> |
| Change in net assets from operations | <u>\$ 1,070</u> | <u>\$ 1,000</u> |

10. UNRESTRICTED STATEMENT OF ACTIVITIES BY PROGRAM (continued)

Unrestricted activity for School programs, for the years 2004 and 2003 are as follows (in thousands):

| | School | |
|--|------------|-------------|
| | 2004 | 2003 |
| Operating revenue, gains, and other support: | | |
| Tuition, and student program fees | \$ 61,951 | \$ 55,964 |
| Student aid | (16,052) | (14,389) |
| Tuition and student program fees, net | 45,899 | 41,575 |
| Contributions | 2,535 | 3,078 |
| Other program revenues | 2,563 | 1,662 |
| Investment return designated for current use | 5,359 | 6,017 |
| Auxiliary activities | 6,224 | 5,852 |
| Other | 2,314 | 2,243 |
| Net assets released from restrictions | 3,318 | 6,092 |
| Total operating revenue, gains, and other support | 68,212 | 66,519 |
| Expenses and losses: | | |
| Programs services | | |
| Other programs | 1,909 | 1,318 |
| Instructional and academic | 42,500 | 42,616 |
| Auxiliary activities | 2,934 | 2,353 |
| Managerial and general | | |
| General administration | 11,073 | 10,493 |
| Depreciation | 7,016 | 7,813 |
| Interest and debt issuance cost | 5,571 | 4,294 |
| Fund raising | 1,694 | 1,309 |
| Total operating expenses before building impairment loss | 72,697 | 70,196 |
| Net change in asset before building impairment loss | (4,485) | (3,677) |
| Building impairment loss | - | (21,567) |
| Change in net assets from operations | \$ (4,485) | \$ (25,244) |

10. UNRESTRICTED STATEMENT OF ACTIVITIES BY PROGRAM (continued)

Total unrestricted statement of activities for years ended 2004 and 2003 (in thousands):

| | 2004 | 2003 |
|--|-------------------|--------------------|
| Revenue, gains, and other support: | | |
| Tuition and student program fees | \$ 61,951 | \$ 55,964 |
| Student aid | (16,052) | (14,389) |
| Tuition and student program fees, net | 45,899 | 41,575 |
| Contributions | 11,683 | 12,809 |
| Chicago Park District tax | 7,421 | 7,295 |
| Museum admissions | 6,414 | 4,590 |
| Annual membership dues | 5,391 | 5,183 |
| Special exhibitions | 1,644 | 993 |
| Other program revenues | 7,006 | 4,797 |
| Investment return designated for current operations | 17,048 | 19,762 |
| Auxiliary activities | 21,247 | 21,310 |
| Other | 3,375 | 3,679 |
| Net assets released from restrictions | 15,733 | 18,823 |
| Total operating revenue, gains, and other support | <u>142,861</u> | <u>140,816</u> |
| Expenses and losses | | |
| Programs services | | |
| Curatorial, libraries, and collections | 26,838 | 25,010 |
| Special exhibitions | 4,326 | 3,839 |
| Museum education | 2,877 | 2,953 |
| Other programs | 5,051 | 3,387 |
| Instructional and academic | 42,500 | 42,616 |
| Auxiliary activities | 15,609 | 17,852 |
| Managerial and general | | |
| General administration | 20,752 | 19,899 |
| Depreciation | 13,113 | 14,299 |
| Interest and debt issuance cost | 7,912 | 6,532 |
| Member development | 1,819 | 2,036 |
| Fund raising | 5,479 | 5,070 |
| Total operating expenses before building impairment loss | <u>146,276</u> | <u>143,493</u> |
| Net change in asset before building impairment loss | <u>(3,415)</u> | <u>(2,677)</u> |
| Building impairment loss | - | (21,567) |
| Change in net assets from operations | <u>\$ (3,415)</u> | <u>\$ (24,244)</u> |

11. RELATED PARTY TRANSACTIONS

All members of the Board of Trustees, Board of Governors, and Standing and Advisory Committees, and all officers and assistant officers of the Institute (collectively known as “Related Parties”) must act in the best interests of the Institute, without regard to their business, family, or personal activities and concerns. If a Related Party believes he or she has an actual or potential financial conflict of interest, the Related Party shall immediately disclose such conflict to the Chairman of the Board and to the Institute’s General Counsel. The Related Party may not vote on, approve, or recommend any action or matter in which he or she has an actual or potential conflict of interest. The Related Party shall not be counted for purposes of determining whether there is a quorum. Financial interests or other activities that would constitute a conflict of interest if undertaken by a Related Party also constitute a conflict of interest if undertaken by an immediate family member of the Related Party and must be disclosed by the Related Party. All Related Parties, other than members of the curatorial and library Advisory Committees, are required to attest annually to their familiarity with this policy and to provide any information the Institute deems relevant concerning any possible conflicts of interest.