

Field Museum of Natural History

*Financial Statements as of and for the
Years Ended December 31, 2006 and 2005,
Additional Information for the
Year Ended December 31, 2006, and
Independent Auditors' Report*

FIELD MUSEUM OF NATURAL HISTORY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Field Museum of Natural History:

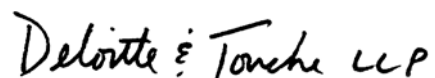
We have audited the accompanying statements of financial position of the Field Museum of Natural History (the "Museum") as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the Museum. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Museum, at December 31, 2006 and 2005, and the changes in its net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the Museum, taken as a whole. The additional information included in the schedule of department expenditures is presented for purposes of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of the management of the Museum. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2007, on our consideration of the Museum's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



May 16, 2007

FIELD MUSEUM OF NATURAL HISTORY

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
Cash	\$ 311,285	\$ 205,660
Interest and dividends receivable	414,517	408,634
Accounts receivable	9,461,839	3,973,377
Pledges receivable	17,611,812	18,127,850
Museum stores inventory	1,831,162	1,591,902
Investments	316,601,670	278,395,748
Prepaid pension cost		71,937
Museum property	276,931,379	271,061,719
Other assets	4,831,398	4,054,382
Collections	<u>1</u>	<u>1</u>
TOTAL	<u>\$ 627,995,063</u>	<u>\$ 577,891,210</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Line of credit	\$ 2,000,000	\$ -
Accounts payable	5,936,671	7,285,416
Accrued expenses	5,195,362	3,749,183
Deferred revenue	8,853,826	8,152,296
Accrued pension cost	965,196	
Asset retirement obligations	8,266,787	8,355,045
Notes payable	<u>179,300,000</u>	<u>179,300,000</u>
Total liabilities	<u>210,517,842</u>	<u>206,841,940</u>
NET ASSETS:		
Unrestricted:		
General operating	88,006,347	87,390,197
Board designated	230,917,877	193,805,095
Temporarily restricted	52,951,442	49,821,040
Permanently restricted	<u>45,601,555</u>	<u>40,032,938</u>
Total net assets	<u>417,477,221</u>	<u>371,049,270</u>
TOTAL	<u>\$ 627,995,063</u>	<u>\$ 577,891,210</u>

See notes to financial statements.

FIELD MUSEUM OF NATURAL HISTORY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Chicago Park District property tax remittances	\$ 6,954,368	\$ -	\$ -	\$ 6,954,368
Government grants	4,567,346			4,567,346
Private grants and contracts	3,423,836			3,423,836
Investment return	12,500,000			12,500,000
Contributions	6,240,403	6,897,716	5,568,617	18,706,736
Sponsorships	445,500			445,500
Memberships	2,892,709			2,892,709
Admissions	9,720,693			9,720,693
Program service fees	2,088,775			2,088,775
Business enterprises (Museum stores, special events, and food services)	16,270,265			16,270,265
Other	1,506,855			1,506,855
Total operating revenues	66,610,750	6,897,716	5,568,617	79,077,083
NET ASSETS RELEASED FROM RESTRICTIONS FOR OPERATIONS	3,398,684	(3,398,684)		-
Total revenue and other support	70,009,434	3,499,032	5,568,617	79,077,083
OPERATING EXPENSES:				
Collections and research	16,557,134			16,557,134
Environment, culture, and conservation	5,016,503			5,016,503
Exhibitions	7,789,075			7,789,075
Education and library	2,727,411			2,727,411
Other Museum services	16,505,227			16,505,227
Administration	2,274,930			2,274,930
Institutional advancement	3,937,304			3,937,304
Marketing and public relations	1,885,658			1,885,658
Business enterprises (Museum stores, special events, and food services)	7,904,051			7,904,051
Interest and amortization	7,004,226			7,004,226
Total operating expenses	71,601,519	-	-	71,601,519
CHANGE IN NET ASSETS RESULTING FROM OPERATING REVENUES AND EXPENSES	(1,592,085)	3,499,032	5,568,617	7,475,564
NONOPERATING ITEMS:				
Investment return	23,790,731	2,579,803		26,370,534
Government grants for capital improvements	719,154			719,154
Private grants and contracts for capital improvements	3,700,955			3,700,955
Capital campaign contributions	8,167,332	3,468,302		11,635,634
Capital campaign expenses	(2,396,248)			(2,396,248)
Unrealized loss on interest rate swap	(1,077,642)			(1,077,642)
Net assets released from restrictions for:				
Capital improvements	1,108,851	(1,108,851)		-
Capital campaign	5,307,884	(5,307,884)		-
Total nonoperating items	39,321,017	(368,630)	-	38,952,387
INCREASE IN NET ASSETS	37,728,932	3,130,402	5,568,617	46,427,951
NET ASSETS—Beginning of year	281,195,292	49,821,040	40,032,938	371,049,270
NET ASSETS—End of year	\$ 318,924,224	\$ 52,951,442	\$ 45,601,555	\$ 417,477,221

See notes to financial statements.

FIELD MUSEUM OF NATURAL HISTORY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Chicago Park District property tax remittances	\$ 6,966,718	\$ -	\$ -	\$ 6,966,718
Government grants	3,049,672			3,049,672
Private grants and contracts	5,388,605			5,388,605
Investment return	11,600,000			11,600,000
Contributions	5,926,671	3,688,892	2,344,853	11,960,416
Sponsorships	1,261,040			1,261,040
Memberships	2,430,207			2,430,207
Admissions	10,543,239			10,543,239
Program service fees	1,733,384			1,733,384
Business enterprises (Museum stores, special events, and food services)	10,276,108			10,276,108
Other	808,495			808,495
Total operating revenues	59,984,139	3,688,892	2,344,853	66,017,884
NET ASSETS RELEASED FROM RESTRICTIONS FOR OPERATIONS	3,565,824	(3,565,824)		-
Total revenue and other support	63,549,963	123,068	2,344,853	66,017,884
OPERATING EXPENSES:				
Collections and research	15,634,434			15,634,434
Environment, culture, and conservation	5,317,464			5,317,464
Exhibitions	10,135,264			10,135,264
Education and library	2,526,238			2,526,238
Other Museum services	15,365,327			15,365,327
Administration	2,050,313			2,050,313
Institutional advancement	3,441,622			3,441,622
Marketing and public relations	1,431,825			1,431,825
Business enterprises (Museum stores, special events, and food services)	6,667,531			6,667,531
Interest and amortization	6,348,430			6,348,430
Total operating expenses	68,918,448	-	-	68,918,448
CHANGE IN NET ASSETS RESULTING FROM OPERATING REVENUES AND EXPENSES	(5,368,485)	123,068	2,344,853	(2,900,564)
NONOPERATING ITEMS:				
Investment return	9,154,702	2,175,237		11,329,939
Government grants for capital improvements	3,719,469			3,719,469
Private grants and contracts for capital improvements	1,507,566			1,507,566
Capital campaign contributions	10,522,152	7,220,023		17,742,175
Capital campaign expenses	(3,057,580)			(3,057,580)
Proceeds from sales of collection items	15,501,800			15,501,800
Unrealized loss on interest rate swap	(540,113)			(540,113)
Net assets released from restrictions for:				
Capital improvements	5,509,914	(5,509,914)		-
Capital campaign	2,975,965	(2,975,965)		-
Change in donor designation	(75,806)	675,806	(600,000)	-
Total nonoperating items	45,218,069	1,585,187	(600,000)	46,203,256
INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	39,849,584	1,708,255	1,744,853	43,302,692
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(7,317,062)			(7,317,062)
INCREASE IN NET ASSETS	32,532,522	1,708,255	1,744,853	35,985,630
NET ASSETS—Beginning of year	248,662,770	48,112,785	38,288,085	335,063,640
NET ASSETS—End of year	\$ 281,195,292	\$ 49,821,040	\$ 40,032,938	\$ 371,049,270

See notes to financial statements.

FIELD MUSEUM OF NATURAL HISTORY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	\$ 46,427,951	\$ 35,985,630
Adjustments to reconcile net change in net assets to net cash provided by operating activities:		
Cumulative effect of change in accounting principle		7,317,062
Depreciation	9,202,050	7,515,977
Net increase in realized/unrealized appreciation	(34,965,280)	(18,773,505)
Contributions permanently restricted for endowment	(5,568,617)	(2,344,853)
Changes in operating assets and liabilities:		
Interest and dividends receivable	(5,883)	120,941
Accounts receivable	(5,488,462)	6,486,038
Pledges receivable	516,038	(5,052,948)
Museum stores inventory	(239,260)	19,961
Prepaid pension cost	71,937	827,963
Other assets	(777,016)	311,308
Accounts payable	(2,318,289)	(8,467,430)
Accrued expenses	1,446,179	636,698
Deferred revenue	701,530	318,214
Accrued pension cost	965,196	
Net cash provided by operating activities	9,968,074	24,901,056
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(199,055,381)	(95,548,335)
Proceeds from sales of investments	195,814,739	102,913,564
Purchases of Museum property	(14,190,424)	(30,981,789)
Net cash used in investing activities	(17,431,066)	(23,616,560)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions permanently restricted for endowment	5,568,617	2,344,853
Borrowings under line of credit	3,000,000	13,900,000
Repayment of line of credit borrowings	(1,000,000)	(18,400,000)
Net cash provided by (used in) financing activities	7,568,617	(2,155,147)
NET INCREASE (DECREASE) IN CASH	105,625	(870,651)
CASH—Beginning of year	205,660	1,076,311
CASH—End of year	<u>\$ 311,285</u>	<u>\$ 205,660</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	<u>\$ 6,802,604</u>	<u>\$ 6,232,940</u>
Accounts payable for construction in progress	<u>\$ 969,544</u>	<u>\$ 4,242,677</u>
Asset retirement obligations revision in estimate	<u>\$ 451,702</u>	<u>\$ -</u>

See notes to financial statements.

FIELD MUSEUM OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. BASIS OF PRESENTATION

The Field Museum of Natural History (the “Museum”) is a private institution providing collection-based research, exhibits, and public education. The Museum focuses on diversity in the world’s physical environments and cultures. The Museum’s collections amount to almost 23 million natural objects and man-made artifacts spanning the Museum’s four disciplines—Anthropology, Botany, Geology, and Zoology. The Museum’s collection is also the basis for the Environment, Culture, and Conservation endeavors.

The financial statements of the Museum for the years ended December 31, 2006 and 2005, have been prepared on the accrual basis of accounting. To ensure observance of limitations and restrictions placed on the use of resources available to the Museum, the accounts of the Museum are maintained in accordance with the principles of fund accounting. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into net asset categories. Accordingly, all financial transactions have been recorded by fund and reported by category.

The Museum classifies all business operations as revenues and expenses in the statements of activities except nonoperating items. Operating expenses are classified by functional categories that reflect Museum operations. Nonoperating items include government and private grants for capital improvement reimbursements, the excess of investment earnings under the total return concept (see Note 2), capital campaign activity, and the unrealized loss on interest rate swap, as these funds are not available for operating purposes.

Net assets released from restriction pledged to the capital campaign and for capital improvements are classified as nonoperating items.

Net Assets—Unrestricted net assets include the current operating, special purpose, unrestricted long-term investment, and property accounts. The current operating accounts consist of revenues available for support of Museum operations and the related expenses, along with related assets and liabilities. The special purpose accounts include assets that have been designated by the Board of Trustees or Museum administration for special projects and the changes in net assets related thereto. Unrestricted long-term investment accounts include assets that have been designated by the Board of Trustees to function as endowments and the related changes in net assets. Property accounts include (i) the building, building improvements, equipment, and exhibits, as well as the depreciation thereto, (ii) accounts pertaining to Chicago Park District capital improvement reimbursements (see Note 5), and (iii) accounts related to the Museum’s notes payable to the Illinois Finance Authority (see Note 7).

Temporarily restricted net assets consist of contributions, grants, and investment income that have been restricted by donors for specified purposes or the existence of time restrictions on gifts. When restricted purposes have been met, such net assets are transferred as “net assets released from restrictions.”

Permanently restricted net assets include assets that are subject to restrictions of the gift requiring that the principal be invested in perpetuity and only the income be expended, as well as income that is similarly restricted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of 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 assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash—Cash reflects currency and deposits in checking accounts with a financial institution that may be deposited or withdrawn without restriction or penalty.

Museum Stores Inventories—Inventories are stated at the lower of average cost or market.

Investments and Investment Income—Other than the Museum's investment in a limited partnership, investments are reported at fair value. Equity securities with readily determinable fair values and debt securities are valued at the last sales price (if quotations are readily available) or at the closing bid price in the principal market in which such securities are normally traded (if no sales price is available). Certain fixed-income securities are valued based on dealer-supplied valuations.

The estimated fair values of equity securities that do not have readily determined fair values, and of other investments, are based on estimates provided by external investment managers and are examined through a valuation review process performed by management. The aggregate carrying value of such investments included within equity securities, fixed income securities, hedged equity funds, absolute return funds, and high yield funds was \$201,259,366 and \$149,041,814 at December 31, 2006 and 2005, respectively. A range of possible values exists for these securities, and therefore the estimated values may differ from the values that would have been used had a ready market for these securities existed.

The investment in the limited partnership is stated at the appraisal value as of the date of the gift and will be adjusted on a periodic basis as appropriate to its estimated fair market value. Investment income is recorded in net assets appropriate to the restriction, as follows:

- a. The Museum utilizes the "total return" concept to allocate investment income earned on permanently restricted and unrestricted long-term investments.

Under the total return concept, a Board-approved spending rate (5.5% of a three-year moving average as of June 30 in 2006 and 2005) is first satisfied from interest and dividend income, and the balance is provided, if necessary, from realized capital gains. Investment income is recorded as unrestricted unless the donor imposed restrictions on the use of such income.

- b. Unless specified by the donor, investment income earned on temporarily restricted investments is recorded in unrestricted net assets.

The Museum monitors the difference between the cost and estimated fair value of its investments. If any of the investments experience a decline in value that the Museum believes is other-than-temporary, the Museum recognizes a realized loss in investment income in the statements of activities.

Derivative Financial Instrument—The Museum uses an interest rate swap to hedge overall exposure to variable rate debt. The swap agreement is not designated as a hedge for accounting purposes and is recorded at fair value.

Properties—Properties are stated at cost and are depreciated on a straight-line basis over their estimated useful lives, which range between 5 and 40 years. Interest on borrowings used to fund capital projects is capitalized and amortized over the life of the asset. Maintenance and repair costs are charged to expense as incurred and betterments are capitalized. Cost and the equivalent accumulated depreciation are eliminated from the accounts when an asset is fully depreciated.

Deferred Revenue and Charges—The Museum recognizes revenue and expenses of auxiliary activities during the period in which the activity is conducted.

Issuance costs associated with long-term notes payable are deferred and amortized ratably over the life of the related notes.

Asset Retirement Obligations—Asset retirement obligations include those for which the Museum has a legal obligation to perform an asset retirement activity, however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the Museum's control. The Museum records all known asset retirement obligations for which the fair value of the liability can be reasonably estimated, including certain obligations relating to regulatory remediation.

Collections—The Museum's collections are made up of artifacts of historical, cultural, or scientific significance that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections or provide for the direct care of existing collections.

In accordance with the practice generally followed by museums, the value of objects in the collections is excluded from the financial statements; collections are reflected in the accompanying financial statements at a nominal value of \$1. Such collections were acquired through purchases and contributions since the Museum's inception. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as decreases in temporarily restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in net assets.

During 2005, the Museum sold collection items for \$15,501,800. In accordance with Museum policy, the proceeds will be used for future collection acquisitions. No collection items were sold during 2006.

Contributions—Contributions are recognized as revenue upon the earlier of the receipt of a donor's unconditional written pledge to contribute or upon receipt of the contribution. The contributions are classified based upon the existence or absence of donor-imposed restrictions.

To the extent authorized by the terms of a trust indenture and related security agreement (see Note 7), the Museum may purchase properties with the proceeds of notes payable prior to spending contributions restricted for such purposes. If the restrictions of the pledge or contribution have been satisfied, the Museum recognizes such restricted pledges or contributions as revenue upon the purchase of the properties and, if recognized, (i) transfers contributions equivalent to the capital expenditure from the Restricted Fund group to the Museum Property Fund group, and (ii) invests the proceeds of such

contributions until it is necessary to use these funds and the interest earned thereon to repay the notes payable.

Contributed Services—The Museum records certain types of in-kind support, including professional services, as contribution revenue. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses.

A substantial number of unpaid volunteers have made significant contributions of their time in the furtherance of the Museum's programs. Such services do not meet the criteria for recognition as a contribution as described above and, therefore, their value is not reflected in the accompanying financial statements.

Chicago Property Tax Revenues—The Museum receives support from property taxes that are collected by the Chicago Park District. These tax revenues are accrued to match the fiscal year allocation by the Chicago Park District.

Income Taxes—The Museum is exempt from income taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code and comparable Illinois statute.

Fair Value of Financial Instruments—The Museum's financial instruments include cash, interest and dividends receivable, accounts receivable, pledges receivable, investments, accounts payable, and notes payable. The fair values of cash, interest and dividends receivable, and investments are based upon market quotes (see Note 3). The fair values of accounts receivable, pledges receivable, accounts payable, and notes payable are estimated by management to approximate their carrying values at December 31, 2006 and 2005.

Institutional Advancement—Institutional advancement consists of expenses related to fund-raising activities, the membership program, and activities of Museum support groups.

Functional Allocation of Expenses—The costs of providing Museum programs and administration have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated to the various functions to the extent possible.

Accounting Pronouncements—In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Museum is currently evaluating the impact of adopting this statement on the financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 redefines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Museum is currently evaluating the impact of adopting this statement on the financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (“SFAS No. 158”). SFAS No. 158 requires an entity to recognize the overfunded or underfunded status of a defined benefit pension plan as an asset or liability in its statement of financial position. SFAS No. 158 is effective for fiscal years ending after June 15, 2007. The Museum is currently evaluating the impact of adopting this statement on the financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* (“SFAS No. 159”). SFAS No. 159 provides entities an option to report selected financial assets at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Museum is currently evaluating the impact of adopting this statement on the financial statements.

Reclassifications—In 2006, the Museum modified its functional expense classifications and realigned the reporting of expenses. As a result, the Museum elected to reclassify the 2005 presentation of expenses to conform with the 2006 presentation.

3. INVESTMENTS

Investments at December 31, 2006 and 2005, consisted of the following:

	2006	2005
Money market funds	\$ 15,750,814	\$ 20,773,497
Equity securities	141,283,045	153,118,241
Fixed income securities	34,263,603	39,613,048
Hedged equity funds	57,562,420	29,225,286
Absolute return funds	65,981,788	27,998,971
High yield funds		5,906,705
Investment in limited partnership	<u>1,760,000</u>	<u>1,760,000</u>
Total	<u>\$316,601,670</u>	<u>\$278,395,748</u>

The following table is a summary of investments where cost basis exceeds fair value, aggregated by investment category and length of time the individual securities have been in a continuous loss position. Based upon analysis and evaluation, management has determined the declines in fair value are temporary and the investments are not impaired at December 31, 2006. The unrealized loss is recognized in investment income in the statements of activities.

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Equity securities	\$ 1,879,089	\$ (73,466)	\$ -	\$ -	\$ 1,879,089	\$ (73,466)
Fixed income securities	<u>19,494,152</u>	<u>(678,014)</u>	<u>14,690,127</u>	<u>(334,233)</u>	<u>34,184,279</u>	<u>(1,012,247)</u>
Total	<u>\$21,373,241</u>	<u>\$(751,480)</u>	<u>\$14,690,127</u>	<u>\$(334,233)</u>	<u>\$36,063,368</u>	<u>\$(1,085,713)</u>

Following is a summary of the investment return and its classification for the years ended December 31, 2006 and 2005, in the statements of activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
For the year ended December 31, 2006:				
Interest and dividends	\$ 4,735,385	\$ 39,726	\$ -	\$ 4,775,111
Net realized gains	17,914,434	165,919		18,080,353
Change in net unrealized gains	16,751,848	133,079		16,884,927
Investment manager fees	<u>(869,857)</u>	<u> </u>	<u> </u>	<u>(869,857)</u>
Total return on investments	38,531,810	338,724	-	38,870,534
Investment return reclassified based on donor-imposed restrictions—interest and dividends	<u>(2,241,079)</u>	<u>2,241,079</u>	<u> </u>	<u>-</u>
Total return reported in the statement of activities	<u>\$ 36,290,731</u>	<u>\$ 2,579,803</u>	<u>\$ -</u>	<u>\$ 38,870,534</u>
Classified as follows:				
Operating revenues	\$ 12,500,000	\$ -	\$ -	\$ 12,500,000
Nonoperating items	<u>23,790,731</u>	<u>2,579,803</u>	<u> </u>	<u>26,370,534</u>
Total	<u>\$ 36,290,731</u>	<u>\$ 2,579,803</u>	<u>\$ -</u>	<u>\$ 38,870,534</u>
For the year ended December 31, 2005:				
Interest and dividends	\$ 5,154,673	\$ -	\$ -	\$ 5,154,673
Net realized gains	11,566,128			11,566,128
Change in net unrealized gains	7,207,377			7,207,377
Investment manager fees	<u>(998,239)</u>	<u> </u>	<u> </u>	<u>(998,239)</u>
Total return on investments	22,929,939	-	-	22,929,939
Investment return reclassified based on donor-imposed restrictions—interest and dividends	<u>(2,175,237)</u>	<u>2,175,237</u>	<u> </u>	<u>-</u>
Total return reported in the statement of activities	<u>\$ 20,754,702</u>	<u>\$ 2,175,237</u>	<u>\$ -</u>	<u>\$ 22,929,939</u>
Classified as follows:				
Operating revenues	\$ 11,600,000	\$ -	\$ -	\$ 11,600,000
Nonoperating items	<u>9,154,702</u>	<u>2,175,237</u>	<u> </u>	<u>11,329,939</u>
Total	<u>\$ 20,754,702</u>	<u>\$ 2,175,237</u>	<u>\$ -</u>	<u>\$ 22,929,939</u>

4. MUSEUM PROPERTY

Museum property at December 31, 2006 and 2005, consisted of the following:

	2006	2005
Building and building improvements	\$ 272,558,431	\$ 174,112,397
Exhibit hall improvements (excluding artifacts and historical treasures)	71,096,810	62,960,196
Research and office equipment	<u>10,538,749</u>	<u>9,591,749</u>
Total property and equipment	354,193,990	246,664,342
Less accumulated depreciation	<u>(89,058,164)</u>	<u>(80,219,558)</u>
Net depreciable property and equipment	265,135,826	166,444,784
Construction in progress	<u>11,795,553</u>	<u>104,616,935</u>
Net property and equipment	<u>\$ 276,931,379</u>	<u>\$ 271,061,719</u>

The Museum operates on land owned by the Chicago Park District and made available to the Museum at no charge. The value of this arrangement is not readily determinable and, accordingly, is not reflected in the accompanying financial statements.

At December 31, 2006, the Museum had property construction in progress that will cost approximately \$10.9 million to complete.

The Museum has an obligation under the City of Chicago Municipal Code to make changes to its fire suppression systems. The entire building is required to be in compliance with the code by January 1, 2016. The costs of these changes will be approximately \$12.5 million and are not reflected in the accompanying financial statements.

In 2005, the Museum recorded a cumulative effect of change in accounting principle of \$7,317,062 and depreciation expense of \$417,968 due to the adoption of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations—an Interpretation of FASB Statement No. 143*. Depreciation is allocated to functional expenses in the statements of activities based on square footage. The Museum recorded a liability for asset retirement obligation of \$8,355,045 and increased the carrying value of the related assets by \$620,015, net of accumulated depreciation of \$1,916,046.

Asset retirement obligations at December 31, 2005, were adjusted during 2006 as follows:

Balance—January 1, 2006	\$ 8,355,045
Accretion expense	363,444
Revision in estimated cash flows	<u>(451,702)</u>
Balance—December 31, 2006	<u>\$ 8,266,787</u>

5. CAPITAL IMPROVEMENT REIMBURSEMENTS

Pursuant to authorization by the Illinois General Assembly, the Chicago Park District issued bonds in 1994 for the benefit of certain museums, including the Museum. Issuance of the bonds provided for approximately \$11.8 million to be utilized in the Museum's capital improvement program. The bond proceeds are held and administered by the Chicago Park District. The Museum submits documentation for reimbursement of the expenditures on the approved projects. Up to one-half of the total expenditures on approved projects are reimbursed from bond proceeds. The reimbursements are recorded as revenue in the property accounts during the year in which the related capital expenditures are incurred.

The Museum accrued \$28,268 of revenue relating to these bonds in 2005. No revenue was accrued relating to these bonds in 2006.

6. PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges and revenue of the appropriate net asset category. Pledges are recorded after discounting to the present value of the expected future cash flows using discount rates ranging between 2.68% and 4.70%.

Pledges at December 31, 2006, are expected to be realized in the following periods:

Due within one year	\$ 7,914,399
Due between two to five years	10,512,626
Due after five years	<u>150,000</u>
	18,577,025
Allowance for uncollectible accounts	(186,798)
Present value discount	<u>(778,415)</u>
Net pledges receivable	<u>\$ 17,611,812</u>

7. NOTES PAYABLE

Notes payable at December 31, 2006 and 2005, consist of the following amounts due to the Illinois Finance Authority, which issued bonds on the Museum's behalf:

	Original Principal	Principal Outstanding 2006	Principal Outstanding 2005	Maturity Date
Series 2002	\$ 90,000,000	\$ 90,000,000	\$ 90,000,000	November 1, 2036
Series 2000	30,000,000	30,000,000	30,000,000	November 1, 2034
Series 1998	29,000,000	29,000,000	29,000,000	November 1, 2032
Series 1990	20,000,000	20,000,000	20,000,000	November 1, 2025
Series 1985	<u>17,000,000</u>	<u>10,300,000</u>	<u>10,300,000</u>	November 1, 2025
Total	<u>\$ 186,000,000</u>	<u>\$ 179,300,000</u>	<u>\$ 179,300,000</u>	

The Adjustable Rate Demand Revenue Bonds, Series 2000, 1998, and 1990, have adjustable methods of interest rate determination, demand features, and interest payment dates. The Series 1990 Bonds are currently in a commercial paper rate mode, and the Series 1998 and 2000 Bonds are in a weekly rate mode. As of December 31, 2006 and 2005, the Series 1990 Bonds bore interest of 3.63% and 3.00%, respectively. As of December 31, 2006 and 2005, the Series 1998 Bonds bore interest of 3.95% and 3.58%, respectively. As of December 31, 2006 and 2005, the Series 2000 Bonds bore interest of 3.95% and 3.58%, respectively.

The Variable Rate Demand Bonds, Series 1985, are subject to redemption beginning November 1, 2016, with sinking fund payments each year until maturity. These bonds are currently in a weekly rate mode. The bonds outstanding at December 31, 2006 and 2005, bore interest of 3.97% and 3.58%, respectively.

The Series 1985 and 1990, prior to election to convert to a fixed rate of interest, are secured by credit facilities issued by The Northern Trust Company. The Series 1998 Bonds, prior to election to convert to a fixed rate of interest, are secured by credit facilities issued by Bank of America. In addition, the Series 1985 Bonds are secured by deposits held by the Bond Trustee in a Debt Service Reserve Fund and a Security Fund. The Series 2000 Bonds, prior to conversion to a fixed rate of interest, are secured by a credit facility issued by JPMorgan Chase.

The Series 2002 was issued September 12, 2002, as Adjustable Medium Term Revenue Bonds. The bonds are rated A by Standard & Poor's and A2 by Moody's, and are not secured by a Letter of Credit. The initial adjustable rate periods end November 1, 2009 through November 1, 2016, and the Bonds bear interest at an initial rate of 3.70% to 4.75%, depending on duration. The current blended rate is 4.34%, and interest is payable each November 1 and May 1.

Assets held for debt service totaled \$1,238,494 and \$1,359,230 at December 31, 2006 and 2005, respectively, and are reported with investments in the statements of financial position.

The total interest costs incurred on these bonds in 2006 and 2005 was \$6,921,820 and \$6,119,834, respectively. Capitalized interest is classified as a depreciable asset within property and equipment.

The Museum entered into an interest rate swap agreement in September 2005 to hedge variable interest rate exposure. The agreement, which expires on November 1, 2032, effectively fixes the interest rate on a notional value of \$45 million at 3.258% through October 31, 2008, and 4.369% from November 1, 2008 to November 1, 2032. This agreement is considered a derivative financial instrument and is reported at its fair value as a liability of \$1,582,435 and \$504,793 at December 31, 2006 and 2005, respectively. The fair value is recorded in accrued liabilities in the statements of financial position. The net change in fair value of the agreement since inception, net of fees of \$35,320 in 2005, is reported as a separate line item in the nonoperating section of the statements of activities. The differential to be paid is recognized as an adjustment to interest expense, and the related amount payable to the counterparty is included in accounts payable.

8. PENSION PLAN

The Museum sponsors a defined benefit pension plan (the "Plan") covering substantially all of its employees that provides pension benefits based on years of service and average compensation, as determined under the Plan. The Museum's funding policy is to contribute amounts necessary to maintain the long-term stability of the Plan.

The change in benefit obligations, change in plan assets, and the composition of the amounts recognized in the accompanying statements of financial position for the years ended December 31, 2006 and 2005 is as follows:

	2006	2005
Accumulated benefit obligation	<u>\$ 13,321,497</u>	<u>\$ 12,486,730</u>
Change in benefit obligation:		
Benefit obligation—beginning of year	\$ 16,037,960	\$ 15,488,633
Service cost	1,161,877	1,070,560
Interest cost	889,010	834,092
Plan amendments	22,367	
Actuarial gain	(678,501)	(516,517)
Benefits paid	<u>(688,991)</u>	<u>(838,808)</u>
Benefit obligation—end of year	<u>\$ 16,743,722</u>	<u>\$ 16,037,960</u>
Change in plan assets:		
Fair value of plan assets—beginning of year	\$ 13,963,445	\$ 13,442,871
Actual return on plan assets	2,012,486	1,359,382
Employer contribution		
Benefits paid	<u>(688,991)</u>	<u>(838,808)</u>
Fair value of plan assets—end of year	<u>\$ 15,286,940</u>	<u>\$ 13,963,445</u>
Funded status	\$ (1,456,782)	\$ (2,074,515)
Unrecognized net actuarial loss	380,946	2,050,820
Unrecognized prior-service cost	<u>110,640</u>	<u>95,632</u>
Net amount recognized—(accrued) prepaid pension cost	<u>\$ (965,196)</u>	<u>\$ 71,937</u>

The components of net periodic benefit costs for the years ended December 31, 2006 and 2005 is as follows:

	2006	2005
Service cost	\$ 1,161,877	\$ 1,070,560
Interest cost	889,010	834,092
Expected return on plan assets	(1,082,943)	(1,128,194)
Amortization of prior-service cost	7,360	15,035
Amortization of net loss	<u>61,829</u>	<u>36,470</u>
Net periodic pension cost	<u>\$ 1,037,133</u>	<u>\$ 827,963</u>

The following table presents the key actuarial assumptions used in developing the data:

	2006	2005
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	5.75 %	5.50 %
Rate of compensation increase	4.00	4.00
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:		
Discount rate	5.50	5.75
Expected return on plan assets	8.00	8.50
Rate of compensation increase	4.00	4.00

The Museum determines the long-term expected rate of return on plan assets by examining historic capital market returns, correlations between asset classes, and the Plan's normal asset allocation. Current and near-term market factors such as inflation and interest rates are then evaluated to arrive at the expected return on plan assets. Peer group, or benchmarking data are also reviewed to ensure a reasonable and appropriate assumption.

The following table represents the Museum's estimated future benefit payments in each of the next five years and in the aggregate for the five fiscal years thereafter:

Estimated future benefit payments:	
2007	\$ 898,000
2008	1,039,000
2009	1,106,000
2010	1,277,000
2011	1,022,000
2012–2016	7,201,000

The following table presents the Museum's pension plan asset allocation at December 31, 2006 and 2005, by asset category:

	2006	2005	Range
Cash and cash equivalents	4 %	- %	0–5%
Equity securities	79	85	50–90
Fixed income securities	17	5	20–40
High yield funds	<u> </u>	<u>10</u>	0–10
Total	<u>100 %</u>	<u>100 %</u>	

The Museum's investment approach is based on modern portfolio theory. Multiple asset classes are implemented in order to obtain the benefits of diversification and maximize long-term return for a given level of risk. Risk tolerance is developed by reviewing the funded status of the plan, duration of the plan liabilities, the income and liquidity requirements, legal constraints, and the financial condition of the Museum. The investment portfolio comprises a diversified combination of cash, equity securities, fixed income securities, and high yield funds. The allocation among equity securities, fixed income securities, high yield funds, and cash is determined by prevailing market conditions and relative valuations among asset classes. The plan's financial condition is monitored on an ongoing basis by means of quarterly investment portfolio reviews, an annual independent actuarial valuation, and periodic assets/liability studies.

The Museum does not expect to contribute to its pension plan in 2007.

9. LINE OF CREDIT

The Museum has an agreement with the Northern Trust Company for an unsecured line of credit for \$10,000,000. An additional \$5,000,000 seasonal line of credit is available upon Board of Trustee approval. The line bears interest at LIBOR, plus 0.5% (5.67% at December 31, 2006). Interest on the outstanding balance is due monthly. Total interest costs incurred on the line of credit in 2006 and 2005, were \$4,318 and \$67,561, respectively. At December 31, 2006, \$2,000,000 was borrowed against the line of credit. At December 31, 2005, the line of credit had no outstanding balance.

Subsequent to December 31, 2006, the Museum entered into an agreement with Bank of America for an additional unsecured line of credit for \$10,000,000. The line bears interest at LIBOR, plus 0.45%.

10. RELATED-PARTY TRANSACTIONS

The Museum Campus Corporation (the “Campus”) is a tax-exempt organization consisting of the Field Museum, Shedd Aquarium, and the Adler Planetarium whose purpose is to attract visitors to the Museum Campus’ centrally located facilities. As of December 31, 2006 and 2005, the Museum has no receivable due from or payable to the Campus.

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ADDITIONAL INFORMATION

FIELD MUSEUM OF NATURAL HISTORY

SCHEDULE OF DEPARTMENT EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006
(With Comparative Totals for 2005)

	Salaries and Wages	Pension and Employee Benefits	Cost of Sales	Supplies	Postage, Freight, and Miscellaneous	Travel, Dues, and Meetings	Printing and Publications	Professional and Outside Services	Utilities	Depreciation	Repairs and Maintenance	Interest and Amortization	Exhibits and Equipment	2006 Total
COLLECTIONS AND RESEARCH:														
Anthropology	\$ 1,501,776	\$ 514,170	\$ -	\$ 207,839	\$ 53,968	\$ 205,631	\$ 6,949	\$ 262,525	\$ 306,864	\$1,371,657	\$ 13,910	\$ -	\$ -	\$ 4,445,289
Botany	1,041,569	366,206		104,774	89,460	117,329	6,165	207,398	115,856	512,551				2,561,308
Geology	1,271,137	472,307		131,439	74,249	75,450	14,646	77,872	128,966	570,256	1,406			2,817,728
Zoology	2,199,491	762,252		339,067	210,845	299,415	32,742	322,562	359,973	1,596,639			2,535	6,125,521
Scientific support	128,763	35,292		147,778	122,494	8,480	64,242	2,471	7,727	33,510	51,292		5,239	607,288
Total collections and research	6,142,736	2,150,227	-	930,897	551,016	706,305	124,744	872,828	919,386	4,084,613	66,608	-	7,774	16,557,134
ENVIRONMENT, CULTURE, AND CONSERVATION:														
Environmental conservation program	962,257	344,501		70,633	16,876	261,436	76,927	2,302,574	10,591	36,668				4,082,463
Center for cultural understanding and change	442,639	155,853		20,489	24,201	53,657	34,827	182,150	4,368	15,856				934,040
Total environment, culture, and conservation	1,404,896	500,354	-	91,122	41,077	315,093	111,754	2,484,724	14,959	52,524	-	-	-	5,016,503
EXHIBITIONS	1,907,127	675,152		366,312	249,840	330,989	42,827	256,057	700,855	3,106,287	150,446		3,183	7,789,075
EDUCATION AND LIBRARY:														
Education	755,076	254,850		46,170	12,228	120,396	97,368	176,794	29,938	122,830	675		560	1,616,885
Library	342,085	122,234		28,141	2,392	9,621	323,799	136,844	26,586	117,831	993			1,110,526
Total education and library	1,097,161	377,084	-	74,311	14,620	130,017	421,167	313,638	56,524	240,661	1,668	-	560	2,727,411
OTHER MUSEUM SERVICES:														
Finance	815,706	291,166		32,899	6,425	6,036	16,260	39,026	2,996	9,481	4,982			1,224,977
Human resources	324,250	90,865		25,381	9,865	103,843	12,219	51,003	5,917	23,559			6,424	653,326
Protection services	1,081,032	389,946		32,094	2,693	12,322	184	314,670	10,908	26,679	38,574			1,909,102
Guest relations	699,782	234,079		48,529	7,156	14,112	36,694	297,432	18,209	32,627			2,463	1,391,083
Housekeeping	626,943	220,874		67,335	137		59	375,567	4,913	18,678	280			1,314,786
Facility planning and operations	902,575	321,467		269,694	491	6,529	5,238	1,146,696	237,899	1,054,879	456,619			4,402,087
Technology	688,313	237,722		118,264	8,429	17,911	149	154,470	51,171	25,970	48,550			1,350,949
General services	299,280	1,262,501		92,138	678,017	51,251	483	1,720,612	48,235	65,275	40,620		505	4,258,917
Total other museum services	5,437,881	3,048,620	-	686,334	713,213	212,004	71,286	4,099,476	380,248	1,257,148	589,625	-	9,392	16,505,227
ADMINISTRATION	1,475,984	351,296		18,080	6,461	115,975	11,042	265,394	8,557	18,897	3,244			2,274,930
INSTITUTIONAL ADVANCEMENT:														
Development	473,753	167,019		43,656	30,480	35,781	89,845	421,785	23,480	97,085			882	1,383,766
Auxiliary groups	169,796	60,406		10,694	11,568	336,211	41,493	108,661	2,722	9,854				751,405
Membership	481,422	167,434		38,182	195,603	9,115	258,487	618,106	20,055	13,479	250			1,802,133
Total institutional advancement	1,124,971	394,859	-	92,532	237,651	381,107	389,825	1,148,552	46,257	120,418	250	-	882	3,937,304
MARKETING AND PUBLIC RELATIONS	417,443	147,613		37,596	58,515	20,971	147,021	1,039,915	3,862	12,722				1,885,658
BUSINESS ENTERPRISES	1,773,815	504,325	4,041,508	150,522	76,516	110,276	11,595	837,817	78,495	308,780	10,402			7,904,051
INTEREST AND AMORTIZATION												7,004,226		7,004,226
TOTAL EXPENSES 2006	\$20,782,014	\$8,149,530	\$4,041,508	\$2,447,706	\$ 1,948,909	\$2,322,737	\$1,331,261	\$11,318,401	\$2,209,143	\$9,202,050	\$ 822,243	\$7,004,226	\$21,791	\$71,601,519
TOTAL EXPENSES 2005	\$19,323,136	\$7,282,871	\$3,260,247	\$2,748,902	\$ 2,027,610	\$4,353,443	\$ 892,032	\$11,172,891	\$2,018,506	\$7,515,977	\$1,893,871	\$6,348,430	\$80,532	\$68,918,448