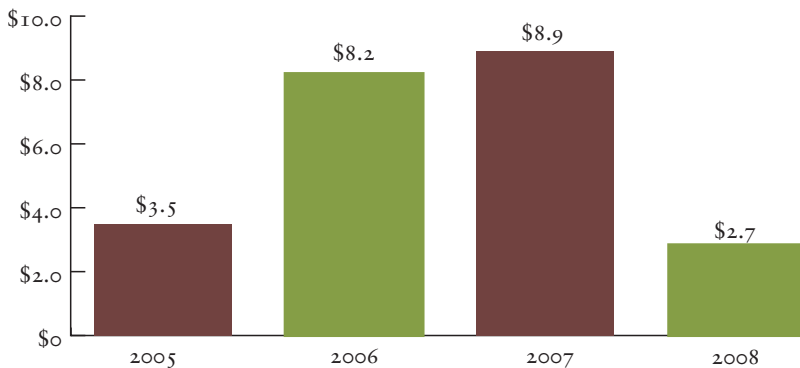


Report of the Treasurer

In fiscal year 2008, the Art Institute of Chicago’s consolidated operating revenues exceeded expenses by \$2.7 million, marking its fourth straight year of consolidated surplus operations (fig. 1). This result is especially significant considering the nature of the economy during the last fiscal year, and it demonstrates the Art Institute’s commitment to balanced operations on a sustained basis. While the struggling investment market limited portfolio gains, increases in the School’s net tuition, modest increases in museum admissions revenue, and continued cost containment enabled the Art Institute to post a surplus for the year. Both the School and the museum once again finished the year with positive results.

Figure 1 Net income for the Art Institute (in millions)



MUSEUM OPERATIONS

The museum ended the year with an operating surplus of approximately \$600,000. Overall, museum attendance was approximately 1.4 million (fig. 2)—an increase of 7.7% from last year. This increase was achieved despite the closure of a significant number of galleries for renovation and reinstallation. Continued robust earnings from the Museum Shop and special events augmented operations. Additionally, museum memberships increased by 3% to a three-year high of approximately 89,000 members. The museum’s membership base remains one of the largest in the country.

SCHOOL OPERATIONS

The School finished the fiscal year with an operating surplus of approximately \$2.0 million. Net tuition grew to \$66.7 million (fig. 3), a 6% increase over the prior year propelled by a 6.2% increase in undergraduate tuition, a 6% increase in graduate tuition rates, and continued strong enrollment. The School’s full-time-equivalent enrollment again reached a new record of 2,608 degree-seeking students (fig 4.).

Figure 2 Museum Attendance (in thousands)

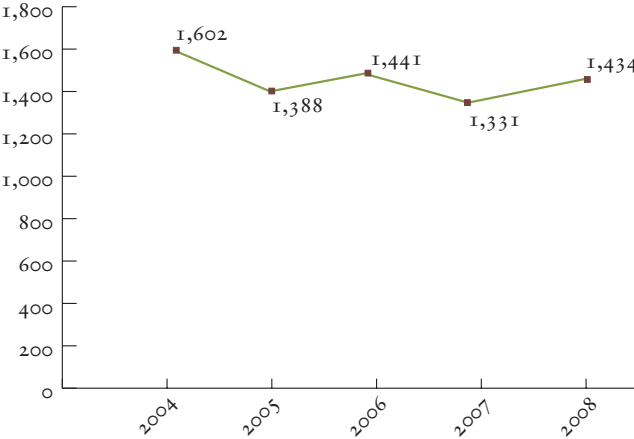


Figure 3 The School of the Art Institute of Chicago: Net Tuition (in millions)

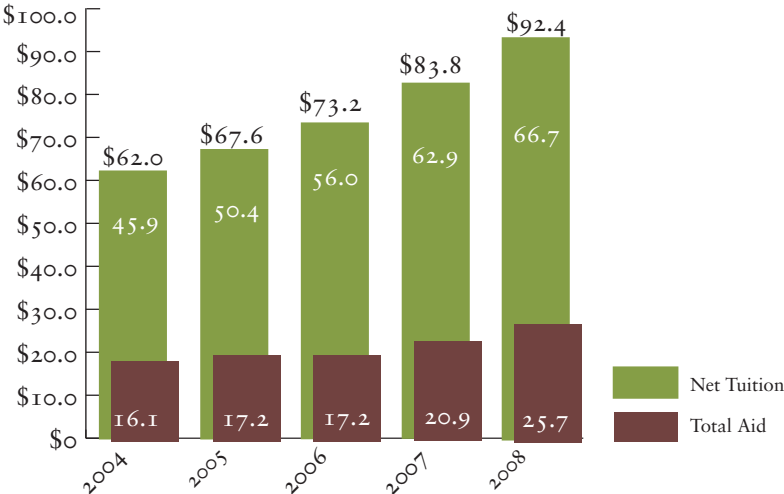


Figure 4 The School of the Art Institute of Chicago: Student FTE Enrollment*

*Degree-seeking students only

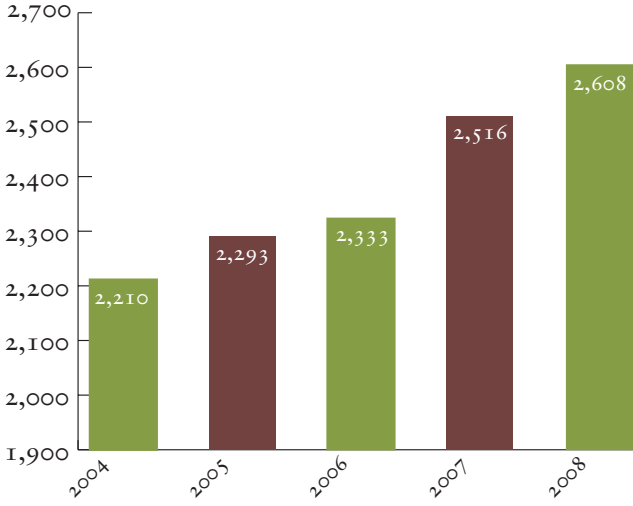
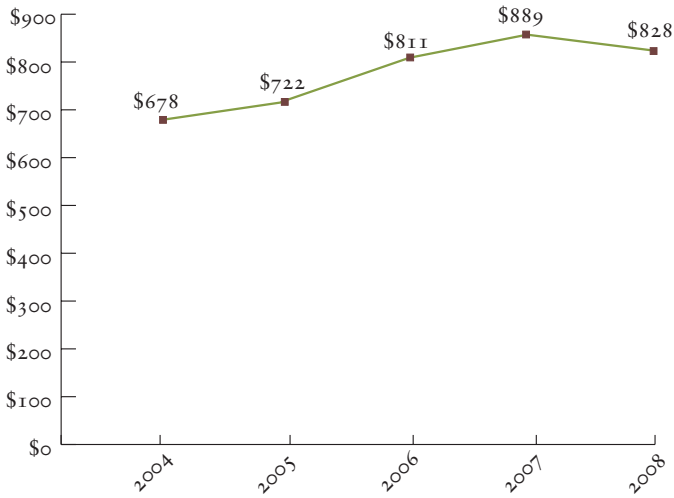


Figure 5 Market Value of Investments (in millions)



INVESTMENT PERFORMANCE

In a year of volatility and uncertainty in the financial markets, the Art Institute's investment portfolio posted positive returns for the sixth successive year. Annualized returns for the pooled endowments were basically flat at .14% in fiscal year 2008, 10.3% for the three-year period ending June 30, 2008, and 12.1% over the past five years. These returns compare favorably with the performance of other endowments over similar periods and on average have exceeded returns for the S&P 500 index.

The total value of our investment portfolio stood at \$828 million as of June 30, 2008 (fig. 5). This is a slight decrease from last year's total amount, primarily because cash received for certain gifts specific to the Modern Wing project were parked in short term investments and were subsequently liquidated and used for the construction of the new building consistent with donor intent. Diversification continues to be a hallmark of the Art Institute's investment philosophy and the Investment and Executive Committees of the Board constantly monitor the portfolio to ensure that manager concentration guidelines are met. As of June 30, 2008, 19.1% of the pooled endowments was allocated to U.S. equity and 19.3% to non-U.S. equity, followed by hedge funds (26.4%), real assets (16.1%), U.S. bonds (10.3%), venture capital/private equity (6%), and cash (2.8%).

GROWTH IN NET ASSETS

The Institute's total assets stood at a record \$1.4 billion at the end of the fiscal year (fig. 6). This is approximately \$78 million higher than a year ago and is driven by growth in fixed assets primarily due to the Modern Wing construction in progress (\$104 million increase from fiscal year 2007), offset by the liquidation of certain short-term investments for the construction of the new building (see Investment Performance above). The largest asset categories are cash and investments of \$828 million and net land, buildings, and equipment of \$423 million.

The net assets of the Art Institute, measured as assets minus liabilities, increased by \$26 million, reaching an all-time record of \$1.0 billion in fiscal year 2008 (fig. 7). The principal additions to net assets were \$58.8 million in gifts received but not included in operating income because they will be spent on the Modern Wing in future years, as well as \$6.6 million in gifts to the endowment, offset by a decrease of \$36.7 million of investment returns in excess of payout needed to support operations.

THE MODERN WING AND OTHER CAPITAL PROJECTS

We have only a few months remaining before the opening of the Modern Wing in May 2009. The construction of the building, which will house the museum's modern and contemporary collections—paintings, sculpture, photography, film and video, and architecture—remains on schedule. The glass, steel, and limestone structure with a striking new Monroe Street entrance will add approximately 264,000 sq. ft. to the Grant Park footprint, including approximately 65,000 sq. ft. of gallery space; a new 20,000 sq. ft education complex; a roof terrace and dining facility overlooking Millennium Park; new art handling facilities; and new mechanical systems to support the entire museum campus.

In addition, the Art Institute has been working on a master plan to reinstall the existing galleries, in conjunction with the opening of the Modern Wing. This process has resulted in the renovation and reinstallation of several galleries, including the opening of Alsdorf Court (Gunsaulus Hall) to its full width of 43 feet, replacing the ceiling and lighting on the

Figure 6 Composition of Assets at June 30, 2008 (in millions)

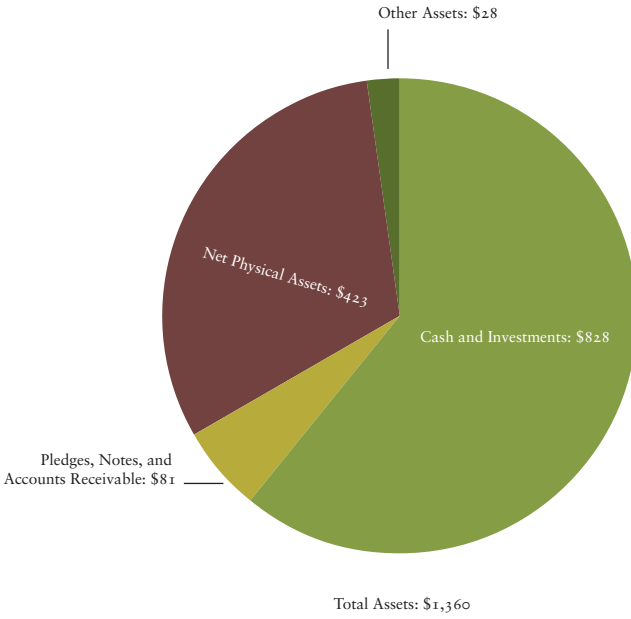


Figure 7 Change in Total Net Assets (in millions)

FY 2008 Unrestricted net surplus	\$2.7
Temporarily restricted revenues over expenses-net.....	58.8
Permanently restricted contributions	6.6
Investment returns on long-term assets less amounts designated for current use.....	(36.7)
Increase in pension liability	(6.8)
Other: primarily net art acquisition.....	1.9
 Total increase (decrease) in net assets	 <u>26.5</u>
Net assets at June 30, 2007	982.4
Net assets at June 30, 2008	\$1,008.9

first floor, installing an energy efficient wood plank floor system, and opening up three large windows on the north side of the first floor.

To fund these projects, the Art Institute is at the tail end of one of the most ambitious capital campaigns undertaken by any cultural institution in the city of Chicago. To date, the Art Institute has received cash and pledges in excess of \$369 million for construction of the Modern Wing, the gallery reinstallation projects, and endowment support for these projects.

SUMMARY

In a challenging and uncertain economic environment, fiscal year 2008 was a very good year for the Art Institute. With continued strength in School enrollment and museum attendance, heightened focus on operations, steady returns on our investment portfolio, and favorable capital campaign fund-raising, we are well positioned for the exciting new era of the Modern Wing to begin.

Frederick H. Waddell

Treasurer and Chairman of Finance Committee

Table 1 Statement of Financial Position (Balance Sheet) (in thousands)

Assets:	2008	2007
Cash and cash equivalents	\$817	\$2,052
Accounts and investment income receivable.....	8,136	8,686
Contributions receivable	61,030	41,537
Inventories	5,421	5,812
Prepaid expenses and other assets	23,163	5,753
Property receivable.....	11,351	10,731
Investments, at market	827,568	889,063
Property and equipment, net	423,012	319,143
Total assets	<u>\$1,360,498</u>	<u>\$1,282,777</u>
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	\$70,027	\$52,828
Deferred revenues	25,500	22,249
Pension liability.....	17,742	11,913
Refundable advances.....	3,073	14,903
Notes and bonds payable	235,285	198,447
Total liabilities	<u>\$351,627</u>	<u>\$300,340</u>
Net Assets:		
Unrestricted	\$272,786	\$300,880
Temporarily restricted.....	460,662	413,354
Permanently restricted.....	275,423	268,203
Total net assets.....	<u>\$1,008,871</u>	<u>\$982,437</u>
Total liabilities and net assets.....	<u>\$1,360,498</u>	<u>\$1,282,777</u>

Table 2 Statement of Activities (Income Statement)
 Statement of Operating Revenues and Expenses (in thousands)

Museum

Changes in unrestricted net assets: Operating

Revenues:

Tuition and student program fees	\$ —
Student aid.....	—
Net tuition	—
Contributions.....	11,467
Chicago Park District tax.....	6,559
Museum admissions.....	6,911
Annual membership dues.....	4,375
Special exhibitions.....	509
Other program revenues.....	3,496
Investment return designated for current use.....	19,376
Auxiliary activities	16,170
Other	803
Net assets released from restrictions.....	13,581

Total operating revenues 83,247

Expenses:

Curatorial, libraries, and collection.....	29,731
Special exhibitions.....	5,371
Museum education.....	2,904
Instructional and academic support.....	—
Auxiliary activities	13,784
Other programs.....	5,129
Managerial and general:	
General administration	10,007
Depreciation and amortization.....	6,563
Interest and debt-related expense	2,399
Development and fundraising.....	6,746

Total operating expenses 82,634

Excess (deficiency) of operating revenues over expenses \$ 613

School	2007-08	2006-07
\$ 92,380	\$ 92,380	\$ 83,844
(25,684)	(25,684)	(20,979)
66,696	66,696	62,865
3,070	14,537	14,020
—	6,559	6,790
—	6,911	6,349
—	4,375	4,356
—	509	172
5,286	8,782	7,526
5,924	25,300	22,369
8,083	24,253	23,192
744	1,547	3,328
2,886	16,467	14,711
92,689	175,936	165,678
—	29,731	27,082
—	5,371	3,152
—	2,904	3,234
59,552	59,552	51,445
3,123	16,907	15,630
1,552	6,681	5,719
12,302	22,309	21,422
6,999	13,562	12,962
5,306	7,705	8,277
1,817	8,563	7,902
90,651	173,285	156,825
\$ 2,038	\$ 2,651	\$ 8,853

The Art Institute of Chicago's *Annual Report* is based on the financial statements for the period ending June 30, 2008, prepared in compliance with generally accepted accounting principles (GAAP). The audited financial statements are available by contacting the Office of the Controller, 116 S. Michigan Avenue, 9th Floor, Chicago, IL 60603, and online at our Web site, www.artic.edu.