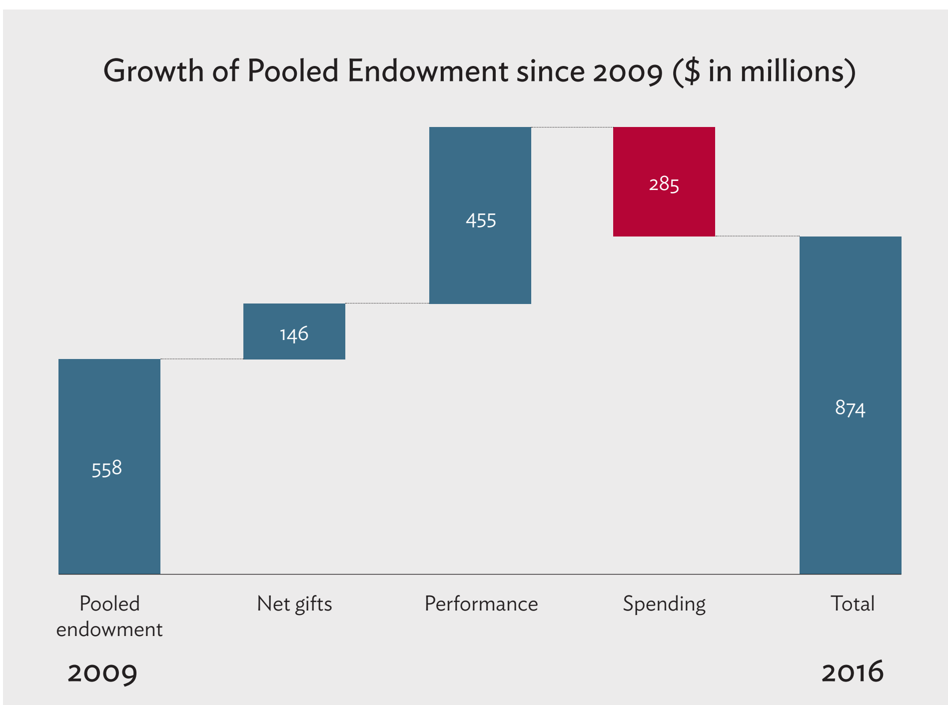
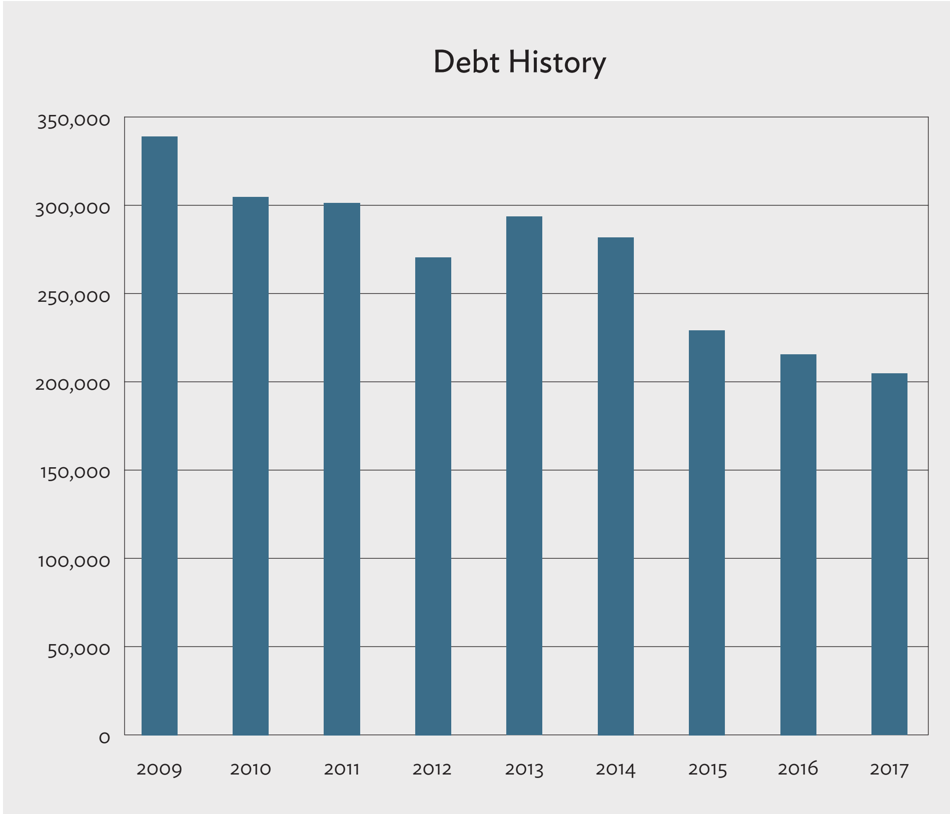
Letter from the Executive Vice President and Chief Financial Officer

In fiscal year 2016, operating revenues exceeded expenses by $17 million for the museum and school of the Art Institute of Chicago, marking the organization's seventh straight year of consolidated surplus operations. The year was financially successful across a number of dimensions. Not only were operations strong, buoyed by programming at the museum, stable enrollment at the school, and continued fiscal discipline, but philanthropy in total was impressive, with close to $93 million received in total gifts and grants and remarkable progress made in the school's $50 million fundraising campaign, which was publicly launched at its 150th anniversary celebration in May 2016.

The financial markets were not as generous, however. For the year that ended June 30, 2016, the endowment returned -1.5 percent; while disappointing in absolute terms, this performance was above the median for a broad universe of charitable foundations and endowments. Additionally, it is worth noting that since the financial crisis, performance (not including gifts) has added $455 million to the value of the endowment, handily exceeding endowment distributions over that same period of $285 million.





The institution continues to enjoy a strong bond rating: AA- stable outlook with Standard and Poor's and A1 positive outlook with Moody's. The ratings agencies have cited the organization's discipline in paying down debt, strong leadership, and proven fundraising success as indicators of its credit strength. As a result of debt payments made in fiscal year 2016, the Art Institute's total debt dropped from $230 million to $216 million, and since 2009, when the debt was at a record high, total debt decreased from $340 million to $216 million.

Museum Operations

The major contributor to the museum's operating surplus in fiscal year 2016 was the exhibition *Van Gogh's Bedrooms*, which was a blockbuster in the very best sense of the term. The show was popular across a broad audience and propelled a spike in attendance close to 1.8 million visitors, the museum's highest attendance in a decade. Admissions, membership, and related revenues all benefited from the exhibition's success.

Of the museum's $7.3 million operating surplus, $4.3 million in unrestricted bequests received in fiscal year 2016 have been directed for investment with the endowment as quasi endowment funds, leaving a net operating surplus of $3 million. This surplus was used to address capital improvements and to pay down a portion of the museum's debt.

The museum continues to distinguish itself as a leader among its peers in its ability to generate earned revenues from its various enterprises. Its growth in revenues for fiscal year 2016 was a robust 10 percent. However, expenses grew at a more modest rate of 4 percent. What is more remarkable is that since the opening of the Modern Wing in 2009, expenses have accelerated at a rate of only 1.9 percent per year.

School Operations
The school generated a surplus of $14 million for fiscal year 2016. Net tuition revenue was flat at $109 million, owing to the school's decision to reduce credit hours for graduation from 132 to 126. This change in credit hours resulted in a reduction in the cost of an SAIC education by 5 percent and was welcomed by students and parents alike. In making this change, the school laid careful groundwork by increasing enrollment slightly and managing expenses in order to protect its financial health. The school has made a consistent effort over the years to use its operating surpluses to pay down debt and to invest in its buildings and systems to avoid issues of deferred maintenance.

Over the past ten years, the school's revenues have grown at a rate of 5.7 percent per year, while expenses have grown at an annualized rate of 5.3 percent. The growth in expense was primarily attributable to a growth in enrollment over this same period of time of 3.2 percent per year.

Corporate Financial Services
The deficit for Corporate Financial Services of -$4 million represents a non-cash expense for the institution's defined benefit pension plan. With discount rates at historical lows and new mortality tables, pension expense increased substantially in fiscal year 2016. Corporate absorbed the expense to buffer both museum and school operations from the vicissitudes of external and unpredictable factors. Nevertheless, despite this deficit, the operating surpluses produced by the museum and school were sufficient to generate a total operating surplus of $17 million.

Conclusion
The Art Institute continues to strengthen its financial foundations. Securing the organization's financial footing is a critical step as the museum and school evaluate their strategic plans and ambitions for programmatic growth. The positive outlook awarded by Moody's for the second year in a row reflects the Art Institute's success in doing important financial spadework in preparation for its dynamic future.

Alison D. Sowden
Executive Vice President and Chief Financial Officer