

Report

of the Treasurer

Fiscal year 2005 was a banner year for the Art Institute of Chicago. Net income was \$3.5 million, with both the School and the museum achieving surpluses. The Institute also had strong investment performance for the third successive year, leading to an all-time record of \$722 million in investments. This provided the opportunity to shed nonessential real estate assets. Significant progress was made in raising funds for, and construction started on, “the Building of the Century.” With the strong financial performance in 2005, the Institute is well positioned to continue to build the financial and physical capacity to remain at the forefront of educational and cultural institutions in the world.

Museum Operations

Fiscal year 2005 brought a new President and Director of the museum, James Cuno, and the museum’s fourth successive year of operating surpluses (see fig. 1). The museum’s \$1.9 million operating surplus was largely driven by lower pension expense. Net special exhibition revenue was \$774,000 for the year, with the ticketed exhibition *Seurat and the Making of “La Grande Jatte”* continuing a successful run that began in fiscal year 2004. Museum attendance was approximately 1.4 million (see fig. 2)—down from 1.6 million visitors in fiscal year 2004 when the museum held three ticketed shows. We expect attendance in fiscal year 2006 to be in line with the historical average of 1.35 million visitors. At the end of the fiscal year the museum had approximately 93,000 members—among the top museum memberships in the country.

Figure 1

Net Income for Museum (in millions)

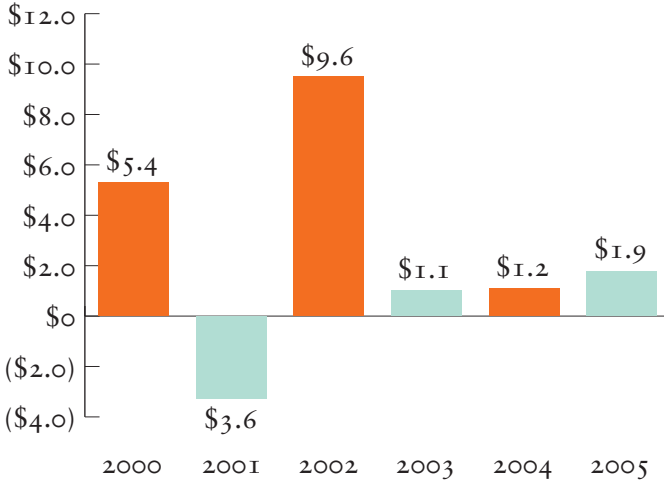


Figure 2

Museum Attendance (in thousands)

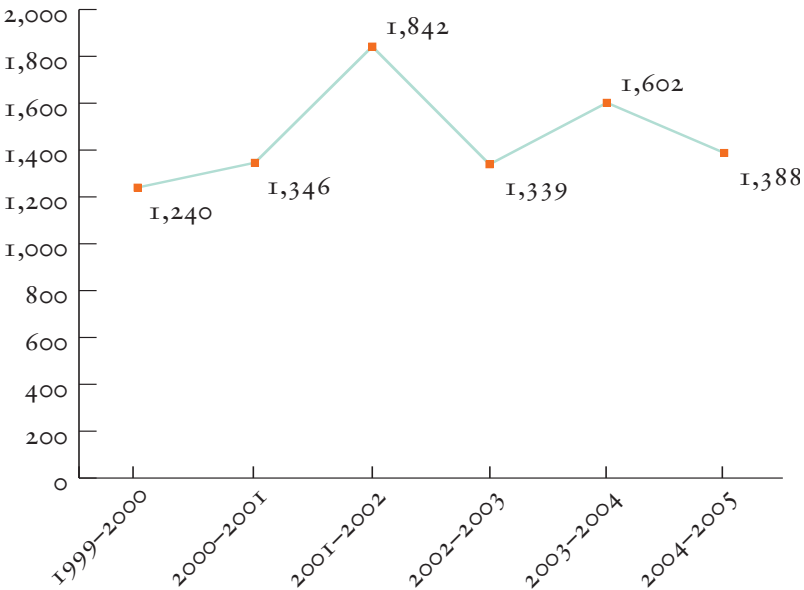


Figure 3

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

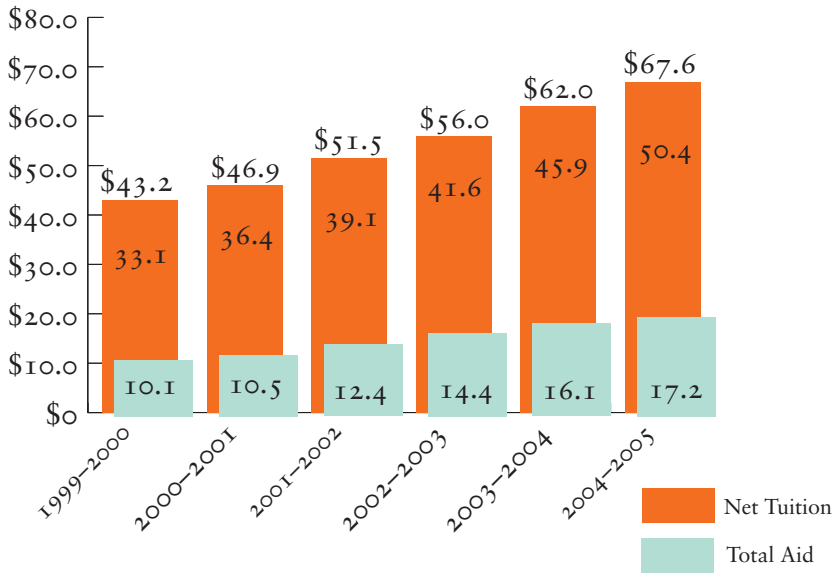


Figure 4

School of the Art Institute of Chicago: Student FTE Enrollment*

* Average of fall and spring degree-seeking students only

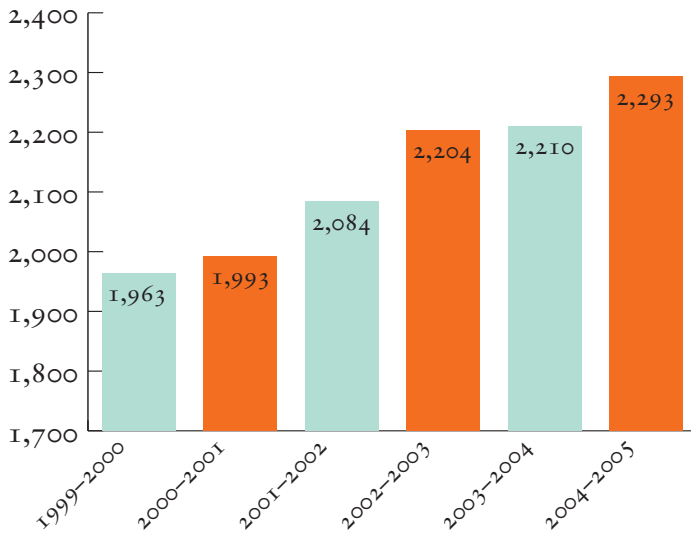
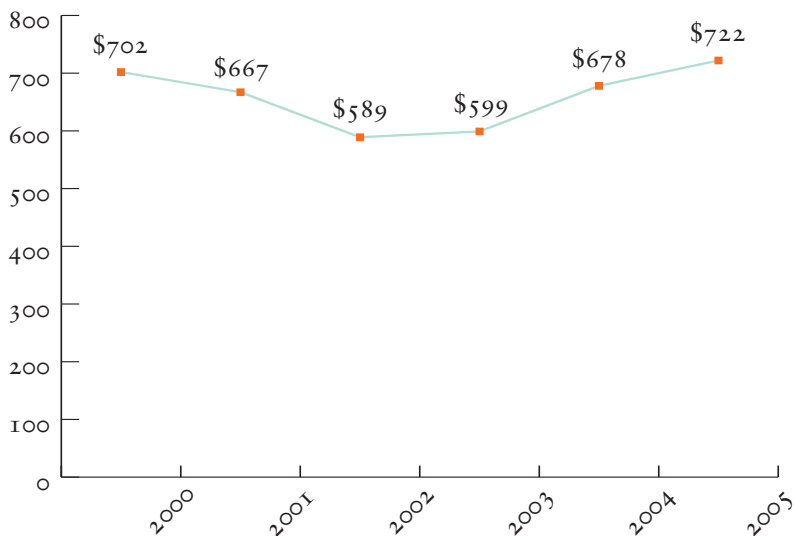


Figure 5

Market Value of Investments at June 30, 2005 (in millions)**School Operations**

For fiscal year 2005, the School achieved a surplus of \$1.6 million, two years earlier than planned. This significant improvement was the result of continued cost containment, a decrease in pension expense, and an increase in net tuition (tuition minus financial aid) that increased the School's operating surplus by \$6.1 million over last year.

Net tuition (fig. 3) grew to \$50.4 million (\$4.5 million better than last year), which was the result of strong enrollment, a 6.3% increase in undergraduate tuition, and a 6.7% increase in graduate tuition. The School's full-time-equivalent (FTE) enrollment reached a new record of 2,293 degree seeking students (fig. 4). Student quality was maintained, with both the selectivity percentage and the matriculation percentage remaining at historical levels.

Growth in Investments

For a third successive year, the Institute's investments posted strong returns and grew to an all-time high of \$722 million at June 30 (fig. 5). A total of \$96.4 million was added to the investment pool, including almost \$21 million in cash gifts and \$75 million of investment gains. Annualized returns for the pooled endowments were 11.8% for fiscal year 2005 and 12.8% for the three-year period ending June 30, 2005. These returns compare favorably with the performance of other endowments over similar periods (fig. 6).

The Institute's diversification policy has been the primary contributor to the strong investment performance of the last three years. As of June 30, 2005, we had 28% allocated to U.S. equity, followed by U.S. bonds (22%), alternative assets (19%), international equity (17%), other investments (11%), and cash (3%). The Investment Committee met eight times in fiscal year 2005 to monitor manager performance and review the asset allocation to make appropriate revisions.

Figure 6

Annual Rate of Investment Return



Figure 7

Composition of Assets at June 30, 2005 (in millions)

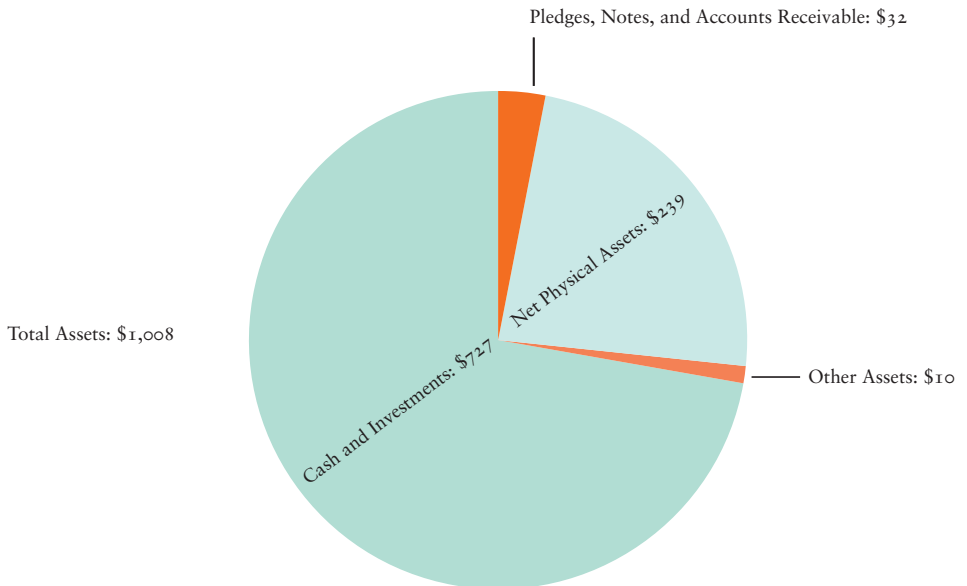


Figure 8

2004–05 Change in Total Net Assets (in millions)

Unrestricted net surplus (deficit)	\$ 3.5
Temporarily restricted revenues over expenses—net	11.4
Permanently restricted contributions	2.3
Investment returns on long-term assets less amounts designated for current use	39.7
Adjustment to reflect pension liability	(10.1)
Other: primarily net art acquisition	(4.5)
Total increase (decrease) in net assets	<u>42.3</u>
Net assets at June 30, 2004	680.3
Net assets at June 30, 2005	\$ 722.6

Growth in Net Assets

The Institute's total assets stood at \$1.0 billion at the end of the fiscal year (fig. 7). This is an increase of \$35 million from the previous year and is entirely due to the increase in investments. The largest asset categories are cash and investments of \$727 million and net land, buildings, and equipment of \$239 million.

The net assets of the Institute, measured as assets minus liabilities, increased by \$42.3 million, reaching \$723 million in fiscal year 2005 (fig. 8). The principal additions to net assets were \$11 million in gifts received but not included in operating income because they will be spent on the new museum wing in future years and approximately \$40 million of investment gains in excess of payout. These additions were offset by a \$10.1 million increase in the Institute's pension liability.

Buildings and Infrastructure

Following the end of the fiscal year, the Institute sold two buildings. The sales of these buildings implement the Institute's plan to shed nonessential real estate to reduce risk and debt.

In May 2005 the Art Institute held a ceremonial groundbreaking for "the Building of the Century." The new building is expected to open in spring 2009 and will house the museum's modern and contemporary collections of painting and sculpture as well as photography, film and video, and architecture. The building will add 264,000 square feet to the Grant Park campus, including 65,000 square feet of gallery space and 20,000 square feet for education. It will increase the amount of campus green space by 118%.

David J. Vitale, *Treasurer*

The Art Institute of Chicago's *Annual Report* is based on the financial statements for the period ending June 30, 2005, 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.

Statement of Financial Position (Balance Sheet)

(in thousands)

	2005	2004 as restated
Assets:		
Cash and cash equivalents	\$ 4,129	2,276
Accounts and investment income receivable	8,651	11,082
Contributions receivable	23,340	34,338
Inventories	4,971	5,030
Prepaid expenses and other assets	4,843	4,865
Investments, at market	722,233	678,400
Assets held for sale	9,222	
Land, buildings, equipment, and books	230,196	236,633
Total assets	\$ 1,007,585	972,624
Liabilities and net assets:		
Liabilities:		
Accounts payable and other liabilities	\$ 22,606	23,630
Accrued interest payable	2,155	2,478
Deferred revenues	6,715	7,130
Accrued pension benefit cost	15,716	5,634
Refundable advances	2,989	2,738
Notes and bonds payable	234,793	250,703
Total liabilities	284,974	292,313
Net assets:		
Unrestricted	177,643	159,182
Temporarily restricted	315,962	294,945
Permanently restricted	229,006	226,184
Total net assets	722,611	680,311
Total liabilities and net assets	\$ 1,007,585	972,624

Statement of Activities (Income Statement)

*Statement of operating revenues and expenses for the year ended June 30, 2005
(in thousands of dollars)*

	Museum
Changes in unrestricted net assets:	
Operating:	
Revenues:	
Tuition and student program fees	\$ _____
Student aid	_____
Net tuition	_____
Contributions	9,119
Chicago Park District tax	6,925
Museum admissions	5,891
Annual membership dues	5,320
Special exhibitions	756
Other program revenues	3,670
Investment return designated for current use	12,444
Auxiliary activities	14,433
Other	880
Net assets released from restrictions	13,130
Total operating revenues:	<u>72,568</u>
Expenses:	
Curatorial, libraries, and collections	25,100
Special exhibitions	4,182
Museum education	2,910
Instructional and academic support	_____
Auxiliary activities	12,269
Other programs	2,022
Managerial and general:	
General administration	9,005
Depreciation and amortization	6,030
Interest and debt-related expense	2,345
Development and fund-raising	6,774
Total operating expenses	<u>70,637</u>
Excess (deficiency) of operating revenues over expenses	<u>\$ 1,931</u>

School	Total 2004-05	Total 2003-04 as restated
\$ 67,565	\$ 67,565	\$ 61,951
(17,175)	(17,175)	(16,052)
50,390	50,390	45,899
1,929	11,048	11,683
—	6,925	7,421
—	5,891	6,414
—	5,320	5,453
—	756	1,059
2,911	6,581	7,036
5,897	18,341	17,634
6,798	21,231	21,247
1,917	2,797	3,375
3,142	16,272	15,733
<u>72,984</u>	<u>145,552</u>	<u>142,954</u>
—	25,100	26,838
—	4,182	4,326
—	2,910	2,877
42,975	42,975	42,500
2,728	14,997	15,609
1,782	3,804	5,051
9,515	18,520	20,752
6,565	12,595	13,113
6,274	8,619	7,912
1,536	8,310	7,298
<u>71,375</u>	<u>142,012</u>	<u>146,276</u>
<u>\$ 1,609</u>	<u>\$ 3,540</u>	<u>\$ (3,322)</u>