

Report

of the Treasurer

In fiscal year 2006, the Art Institute of Chicago again achieved excellent financial results, finishing the year with a net income of \$8.2 million. This is the second consecutive year of consolidated surplus operations, and both the School and the museum finished the year better than budget and with positive results.

Museum Operations

The museum ended the year with an operating surplus of \$3.4 million—the fifth straight year of surplus operations (see fig. 1). The museum's favorable financial performance in FY2006 is as a result of higher contributions revenue and an increase in Museum Shop and event revenue related to the *Toulouse-Lautrec and Montmartre* exhibition, and positive healthcare claims experience. Overall, museum attendance was approximately 1.4 million (see fig. 2), on par with last year and in line with our historical experience. At the end of the fiscal year the museum had approximately 89,000 members—among the top museum memberships in the country.

School Operations

The School finished the fiscal year with an operating surplus of \$4.8 million. This surplus was the result of an 11.5% growth in revenue fueled by an increase in net tuition revenue and lower expenditures due to positive healthcare claims experience.

Net tuition (fig. 3) grew to \$56 million (\$5.6 million above last year), which was achieved by strong enrollment, a 6.5% increase in undergraduate tuition, and a 6.3% increase in graduate tuition. The School's full-time-equivalent (FTE) enrollment reached a new record of 2,333 degree-seeking students (fig. 4). Student quality was maintained with both the selectivity percentage and the matriculation percentage remaining close to historical levels.

Growth in Investments

For a fourth successive year, the Institute's investments posted strong returns and grew to a record high of \$811 million at June 30 (fig. 5). The Institute's diversification policy has been the primary contributor to the strong investment performance of the last four years. As of June 30, 2006, 27% of the pooled endowments was allocated to U.S. equity, 21% to global equity, followed by alternative structures (20%), U.S. bonds (16%), other investments (13%), and cash (3%). Annualized returns for the pooled endowments were 12.2% in fiscal year 2006, and 14.0% for the three-year period ending June 30, 2006. 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 (fig. 6).

Figure 1 Net Income for Museum (in millions)

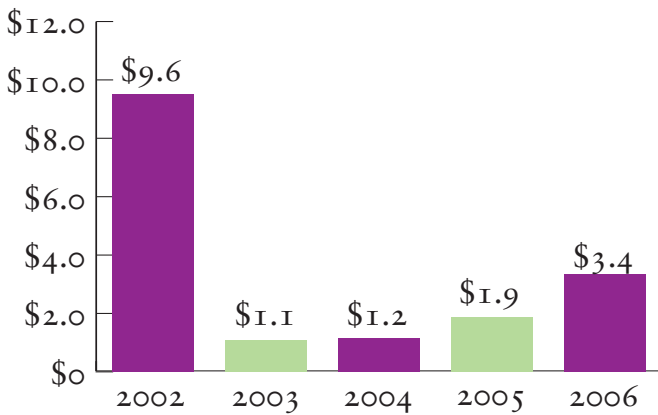


Figure 2 Museum Attendance (in thousands)

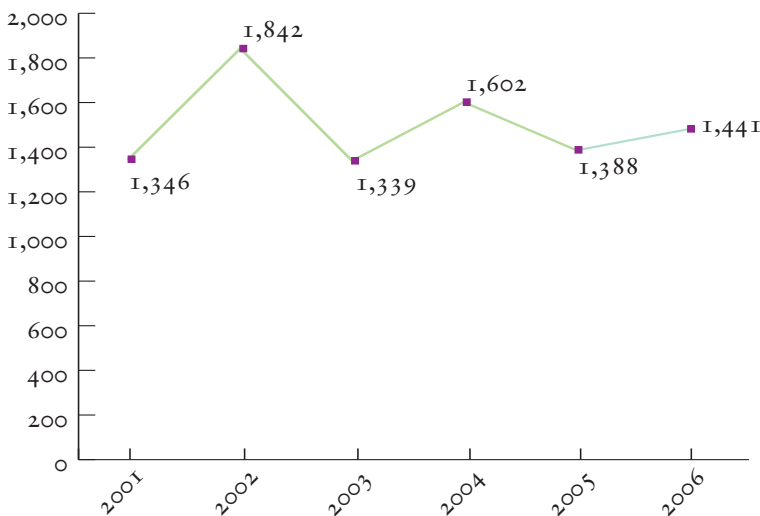


Figure 3

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

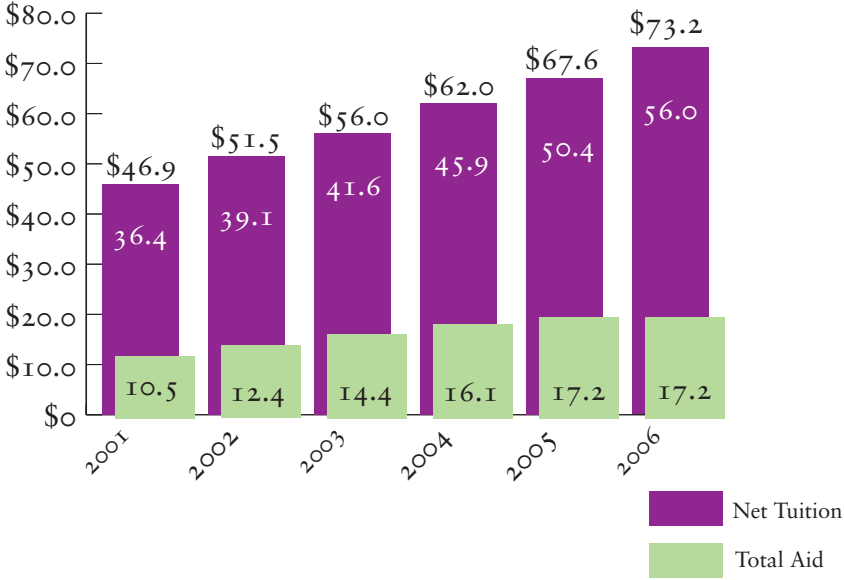


Figure 4

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

* Degree-seeking students only

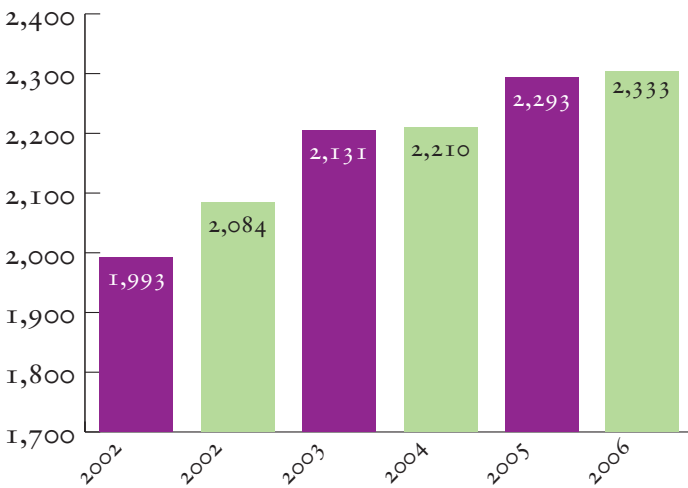


Figure 5

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



Figure 6

Annual Rate of Investment Return



Figure 7

Composition of Assets at June 30, 2006 (in millions)

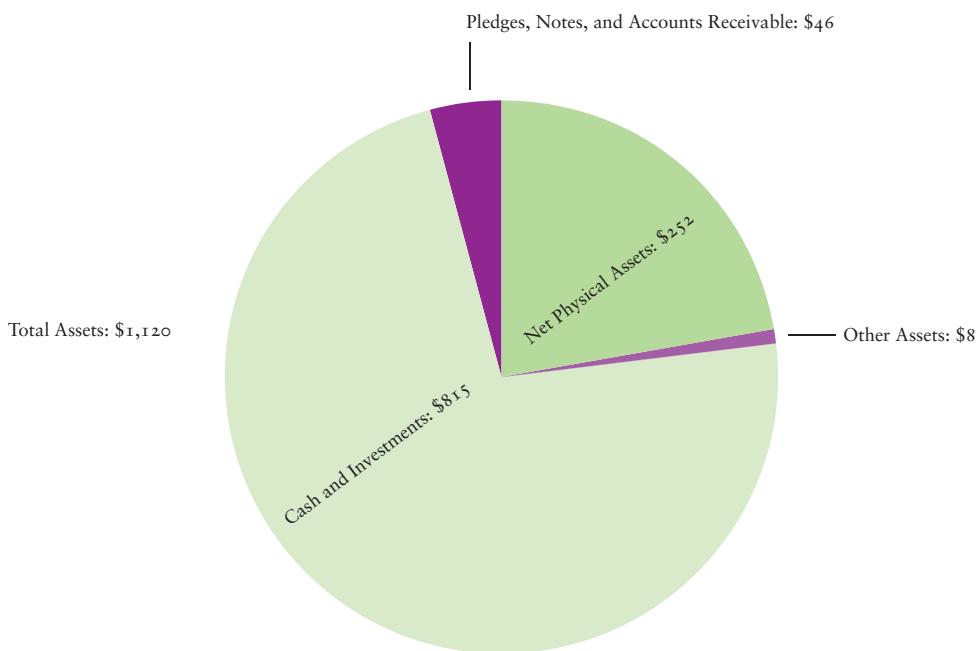


Figure 8

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

| | |
|--|--------------|
| Unrestricted net surplus (deficit) | \$ 8.2 |
| Temporarily restricted revenues over expenses—net | 34.8 |
| Permanently restricted contributions | 26.5 |
| Investment returns on long-term assets less amounts designated for current use | 47.5 |
| Adjustment to reflect pension liability | 13.3 |
| Other: primarily net art acquisition | (7.5) |
| Total increase (decrease) in net assets | 122.7 |
| Net assets at June 30, 2005 | 722.6 |
| Net assets at June 30, 2006 | \$ 845.3 |

Growth in Net Assets

The Institute’s total assets stood at a record \$1.1 billion at the end of the fiscal year (fig. 7). This is approximately \$113 million higher than a year ago and is driven by growth in the investment portfolio and investment in the Modern Wing. The largest asset categories are cash and investments of \$815 million and net land, buildings, and equipment of \$252 million.

The net assets of the Institute, measured as assets minus liabilities, increased by \$122.7 million, reaching an all-time record of \$845 million in fiscal year 2006 (fig. 8). The principal additions to net assets included \$34.8 million in gifts for the Modern Wing that were received but not included in operating income because they will be spent on construction, as well as \$26.5 million in gifts to the endowment, and over \$47.5 million of investment gains in excess of endowment payout to support operations.

Buildings and Infrastructure

The construction of the Modern Wing is scheduled for completion in FY2009. The building will house the museum’s modern and contemporary collections: paintings, sculpture, photography, film and video, and architecture. It will add approximately 264,000 sq. ft. to the Grant Park footprint, including approximately 65,000 sq. ft. of gallery space; 20,000 sq. ft. for Museum Education; a roof terrace and dining facility overlooking Millennium Park; new art handling facilities; and new mechanical systems to support the entire museum campus. To finance this landmark construction project, the museum is in the midst of a capital campaign and has received cash and pledges of more than two-thirds of its \$350 million campaign goal.

Summary

These are exciting times at the Institute, and a period of great revitalization continues. Our financial performance in FY2006 demonstrates that both the museum and the School are achieving balanced operations on a sustained basis, while at the same time remaining at the forefront of visual arts and design collection, exhibition, interpretation, and education. Our forward financial plan continues to be robust and is aimed at maintaining our role as one of the preeminent cultural institutions in the nation.

David J. Vitale, *Treasurer*

Statement of Financial Position (Balance Sheet)

(in thousands)

| | 2006 | 2005 |
|---|---------------------|------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 4,110 | 4,129 |
| Accounts and investment income receivable | 8,596 | 8,651 |
| Contributions receivable | 26,968 | 23,340 |
| Inventories | 3,965 | 4,971 |
| Prepaid expenses and other assets | 3,999 | 4,843 |
| Property receivable | 10,033 | |
| Investments, at market | 810,626 | 722,233 |
| Assets held for sale | | 9,222 |
| Land, buildings, equipment, and books | 252,005 | 230,196 |
| Total assets | \$ 1,120,302 | 1,007,585 |
| Liabilities and net assets: | | |
| Liabilities: | | |
| Accounts payable and other liabilities | \$ 27,481 | 22,606 |
| Accrued interest payable | 1,994 | 2,155 |
| Deferred revenues | 20,461 | 6,715 |
| Accrued pension benefit cost | 2,452 | 15,716 |
| Refundable advances | 14,341 | 2,989 |
| Notes and bonds payable | 208,258 | 234,793 |
| Total liabilities | 274,987 | 284,974 |
| Net assets: | | |
| Unrestricted | 226,467 | 177,643 |
| Temporarily restricted | 365,173 | 315,962 |
| Permanently restricted | 253,675 | 229,006 |
| Total net assets | 845,315 | 722,611 |
| Total liabilities and net assets | \$ 1,120,302 | 1,007,585 |

Statement of Activities (Income Statement)

*Statement of operating revenues and expenses for the year ended June 30, 2006
(in thousands of dollars)*

Museum

| | |
|--|-----------------|
| Changes in unrestricted net assets: | |
| Operating: | |
| Revenues: | |
| Tuition and student program fees | \$ _____ |
| Student aid | _____ |
| Net tuition | _____ |
| Contributions | 10,670 |
| Chicago Park District tax | 6,924 |
| Museum admissions | 6,875 |
| Annual membership dues | 5,090 |
| Special exhibitions | 554 |
| Other program revenues | 3,919 |
| Investment return designated for current use | 13,287 |
| Auxiliary activities | 16,067 |
| Other | 949 |
| Net assets released from restrictions | 11,410 |
| Total operating revenues: | <u>75,745</u> |
| Expenses: | |
| Curatorial, libraries, and collections | 24,790 |
| Special exhibitions | 4,061 |
| Museum education | 3,136 |
| Instructional and academic support | _____ |
| Auxiliary activities | 13,568 |
| Other programs | 4,100 |
| Managerial and general: | |
| General administration | 8,516 |
| Depreciation and amortization | 6,044 |
| Interest and debt-related expense | 2,492 |
| Development and fund-raising | 5,613 |
| Total operating expenses | <u>72,320</u> |
| Excess (deficiency) of operating revenues over expenses | <u>\$ 3,425</u> |

| School | Total 2005-06 | Total 2004-05 |
|---------------|------------------|------------------|
| \$ 73,224 | \$ 73,224 | \$ 67,565 |
| (17,159) | (17,159) | (17,175) |
| 56,065 | 56,065 | 50,390 |
| 2,762 | 13,432 | 11,048 |
| — | 6,924 | 6,925 |
| — | 6,875 | 5,891 |
| — | 5,090 | 5,320 |
| | 554 | 756 |
| 3,967 | 7,886 | 6,581 |
| 5,010 | 18,297 | 18,341 |
| 6,888 | 22,955 | 21,231 |
| 1,090 | 2,039 | 2,797 |
| 5,601 | 17,011 | 16,272 |
| 81,383 | 157,128 | 145,552 |
| — | 24,790 | 25,100 |
| — | 4,061 | 4,182 |
| — | 3,136 | 2,910 |
| 48,103 | 48,103 | 42,975 |
| 2,924 | 16,492 | 14,997 |
| 1,364 | 5,464 | 3,804 |
| 10,344 | 18,860 | 18,520 |
| 6,278 | 12,322 | 12,595 |
| 6,090 | 8,582 | 8,619 |
| 1,504 | 7,117 | 8,310 |
| 76,607 | 148,927 | 142,012 |
| \$ 4,776 | \$ 8,201 | \$ 3,540 |

The Art Institute of Chicago's *Annual Report* is based on the financial statements for the period ending June 30, 2006, 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.