

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

In April 2020, the Institute issued \$60 million par value of taxable private notes to New York Life and affiliates. Proceeds from the note issuance and \$18.7 million of cash were used to retire the 2010A bonds and to advance refund the Series 2012A bonds. The Institute recognized a net gain of \$162,000 on the transaction in other non-operating in the June 30, 2020 statement of activities.

The Institute's debt and loan agreements require, among other things, the maintenance of a financial ratio. The Institute was in compliance with all financial covenants as of June 30, 2021. Management believes that subject to certain conditions, at a minimum, the following net assets with donor restrictions can be used to meet the Institute's debt obligation as of June 30, 2021 and 2020, (in thousands):

	<u>2021</u>	<u>2020</u>
Contributions receivable for acquisition or improvement of long-lived assets funded wholly or partially by debt	\$ 312	\$ 13,901
Portion of perpetual endowments subject to a timing restriction under UPMIFA consistent with state law, these funds are available upon appropriation by the Board	264,127	162,780
Other net assets with donor restrictions available for debt obligations	<u>20,409</u>	<u>16,624</u>
Total net assets with donor restrictions available for debt obligations	<u>\$ 284,848</u>	<u>\$ 193,305</u>

Notwithstanding the aforementioned, other net assets not listed above may be used to satisfy the Institute's debt obligations consistent with their restrictions.

NOTE 10 - RESTRICTIONS ON NET ASSETS

Net assets by donor restriction as of June 30, 2021 and 2020 is summarized as follows (in thousands):

	<u>Net Assets Subject to Time and Purpose Restrictions</u>		<u>Net Assets to be Maintained in Perpetuity</u>		<u>Total Net Assets With Donor Restrictions</u>	
	2021	2020	2021	2020	2021	2020
Purchase of art objects	\$ 77,973	\$ 58,825	\$ 76,191	\$ 63,015	\$154,164	\$121,840
Purchase of books	4,582	3,203	2,395	2,395	6,977	5,598
Student aid	47,240	29,440	49,654	48,386	96,894	77,826
Museum exhibitions	26,206	18,154	26,558	26,533	52,764	44,687
Gallery maintenance, professorships, and curatorships	140,813	82,257	174,147	172,272	314,960	254,529
Acquisitions or improvements of long-lived assets	40,253	39,211	-	-	40,253	39,211
Education, instruction, and other departmental purposes	176,045	125,264	85,765	81,323	261,810	206,587
Contribution receivable	22,948	29,195	9,573	24,407	32,521	53,602
Assets held in trust by others	634	520	55,125	44,959	55,759	45,479
General purpose endowments	<u>77,099</u>	<u>57,167</u>	<u>27,295</u>	<u>27,295</u>	<u>104,394</u>	<u>84,462</u>
Total	<u>\$ 613,793</u>	<u>\$ 443,236</u>	<u>\$ 506,703</u>	<u>\$ 490,585</u>	<u>\$1,120,496</u>	<u>\$ 933,821</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The nature of restrictions on net assets released from donor restrictions for the years ended June 30, 2021 and 2020 is summarized as follows (in thousands):

	Released from Restriction	
	2021	2020
Purchase of art objects	\$ 30,769	\$ 15,952
Purchase of books	266	234
Student aid	4,673	4,584
Museum exhibitions	3,611	4,158
Gallery maintenance, professorships, and curatorships	21,198	11,541
Acquisitions or improvements of long-lived assets	438	789
Education, instruction, and other departmental purposes	27,792	16,144
Total	<u>\$ 88,747</u>	<u>\$ 53,402</u>

NOTE 11 - PENSION BENEFITS

The Institute has a qualified, noncontributory defined benefit pension plan (the "Plan") covering staff employees who meet the Plan's eligibility. Staff employees hired prior to January 1, 2007, are eligible for the Plan. Staff employees hired after December 31, 2006 and eligible faculty of the School participate in a defined contribution plan in lieu of participation in the Plan. A supplemental retirement plan is provided for certain employees whose benefits are restricted under the qualified plans.

In April 2021, the Institute approved a plan to freeze pension benefits for active employees who participate in the Plan, with an effective date to be determined. The impact of the freeze resulted in a decrease to the projected benefit obligation and decrease to the net periodic benefit cost, which is recognized as a curtailment for the fiscal year ended June 30, 2021.

The following table sets forth the Plan's pension benefit obligation, plan assets, and funded status reconciled with the amounts set forth in the statements of financial position as of June 30, 2021 and 2020 (in thousands):

	2021	2020
Change in benefit obligations		
Benefit obligations - beginning of year	\$ 185,775	\$ 178,053
Service cost	2,944	3,070
Interest cost	5,626	6,410
Actuarial gain	(4,201)	12,425
Benefits paid	(12,220)	(13,371)
Curtailments	(11,047)	(812)
Projected benefit obligation - end of year	<u>166,877</u>	<u>185,775</u>
Change in plan assets		
Fair value of plan assets - beginning of year	139,114	144,519
Actual return on plan assets	26,014	2,966
Employer contribution	-	5,000
Benefits paid	(12,220)	(13,371)
Fair value of plan assets - end of year	<u>152,908</u>	<u>139,114</u>
Funded status at the end of the year	<u>\$ (13,969)</u>	<u>\$ (46,661)</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The pension plan items not yet recognized as a component of periodic pension cost, but included in net assets as of June 30, 2021 and 2020 is as follows (in thousands):

	2021	2020
Net actuarial loss	\$ 27,900	\$ 68,611
Prior-service cost	-	1,002
Net amount recognized	<u>\$ 27,900</u>	<u>\$ 69,613</u>

The accumulated benefit obligation as of June 30, 2021 and 2020, was \$165.7 million and \$170.5 million, respectively.

As of June 30, 2021 and 2020, components of net periodic benefit cost for the Plan consist of the following (in thousands):

	2021	2020
Service cost	\$ 2,944	\$ 3,070
Interest cost	5,625	6,410
Expected return on plan assets	(6,817)	(7,468)
Amortization of prior service credit	281	307
Amortization of net actuarial loss	6,267	4,832
Curtailments	721	92
Net periodic benefit cost	<u>\$ 9,021</u>	<u>\$ 7,243</u>

Assumptions

Weighted-average assumptions used to determine the pension benefit obligation as of June 30, 2021 and 2020 are as follows:

	2021	2020
Discount rate	3.10%	3.07%
Salary growth rate	3.50	3.50

Weighted-average assumptions used to determine pension net periodic cost for the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
Discount rate	3.07%	3.65%
Expected return on plan assets	5.10	5.30
Salary growth rate	3.50	3.75

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Estimated Future Benefit Payments

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows (in thousands):

Year Ending June 30:

2022	\$	11,280
2023		11,083
2024		11,722
2025		11,392
2026		10,697
2027 - 2031		49,993

Plan Assets

Investment objectives and policies are approved by the Institute's Executive Committee based on recommendations by the Compensation and Benefits Committee and are achieved in partnership with external investment managers. The portfolio is designed to generate returns sufficient to meet obligations to beneficiaries at acceptable levels of risk. The Institute determines the long-term rate of return on Plan assets by examining the Plan's asset allocation, historical capital market returns, and inflation assumptions. Historical returns and benchmarking data are also reviewed to ensure a reasonable and appropriate return assumption.

Plan assets are segregated into two separate investment pools, the retiree portion and the active portion. The assets of the retiree portion of the Plan are invested in a liability-driven investment strategy designed to match the duration and expected cash flows of the benefit distributions for certain retired Plan participants. The assets of the active portion of the Plan are invested to cover the future obligations due to the other Plan participants. The active portion of the Plan is invested in a mix of return seeking and liability hedging assets.

The asset allocation of the active portion of the Plan was as follows as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>	<u>Target Allocation</u>
Asset category:			
Equity securities	76%	75%	75%
Fixed income securities and cash and cash equivalents	24	25	25
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Plan's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. Investments in publicly traded mutual funds are stated at the last reported sales price on the date of valuation. Institutional commingled funds are stated at fair value of the underlying securities or at NAV, as determined by the administrator, based on readily determinable market values (in thousands). In accordance with ASC 820, investments measured at the NAV or equivalents are not categorized within the fair value hierarchy.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The Plan's investments are classified as follows, based on fair values, as of June 30, 2021 (in thousands):

	2021				Total
	Investments Measured at NAV or Equivalent	Level 1	Level 2	Level 3	
Plan assets, at fair value:					
Cash and cash equivalents	\$ 1,494	\$ -	\$ -	\$ -	\$ 1,494
Equity securities	62,124	20,491	-	-	82,615
Fixed income securities	57,008	11,791	-	-	68,799
	<u>\$ 120,626</u>	<u>\$ 32,282</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152,908</u>

The Plan's investments are classified as follows, based on fair values, as of June 30, 2020 (in thousands):

	2020				Total
	Investments Measured at NAV or Equivalent	Level 1	Level 2	Level 3	
Plan assets, at fair value:					
Cash and cash equivalents	\$ 1,289	\$ -	\$ -	\$ -	\$ 1,289
Equity securities	45,943	23,001	-	-	68,944
Fixed income securities	58,723	10,158	-	-	68,881
	<u>\$ 105,955</u>	<u>\$ 33,159</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,114</u>

Employer Contributions to Retirement Plans

The Institute is evaluating making no contributions to its defined benefit pension plan in fiscal year 2021 as Plan contributions made in recent years have exceeded the minimum funding requirements. Employer contributions to the defined contribution plans totaled \$5.3 million and \$6.2 million, respectively, for the years ended June 30, 2021 and 2020. Employer contributions to the supplemental retirement plan totaled \$310,000 and \$278,000, respectively, for the years ended June 30, 2021 and 2020.

NOTE 12 - NATURAL CLASSIFICATION OF EXPENSES

The Institute's primary programs are operation of the Museum and the School. Natural expenses incurred in support of these programs are allocated based on a variety of cost allocation techniques, including time and effort and square footage.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The nature of operating expenses by function for the year ended June 30, 2021, are as follows (in thousands):

	Instructional and Academic	Curatorial, Libraries, Collections and Exhibitions	Museum Education	Other Programs	Auxiliary Activities	Total Program Services	Management and General	Fundraising and Member Development	Total
Salaries and wages	\$ 53,340	\$ 17,332	\$ 1,206	\$ 1,646	\$ 1,949	\$ 75,473	\$ 15,812	\$ 7,088	\$ 98,373
Fringe benefits	14,167	5,490	398	576	613	21,244	4,725	2,395	28,364
Contracted services	6,388	6,349	220	144	1,931	15,032	2,592	638	18,262
Equipment, rental, and maintenance	7,300	1,658	22	96	2,888	11,964	1,954	84	14,002
Travel and entertainment	21	7	-	-	-	28	83	3	114
Telephone, copy and postage	1,204	151	5	6	115	1,481	403	279	2,163
Supplies, books, and subscriptions	774	1,077	28	22	138	2,039	297	70	2,406
Publications and printing	557	489	19	8	-	1,073	33	357	1,463
Publicity and promotions	602	11	-	1,097	-	1,710	14	-	1,724
Cost of sales	98	153	-	6	1,487	1,744	46	-	1,790
Utilities	1,247	2,529	87	-	932	4,795	104	80	4,979
Interest	-	-	-	-	-	-	4,414	-	4,414
Bad debt	3	-	-	4	-	7	531	-	538
Other	4,798	2,085	10	575	516	7,984	2,676	342	11,002
Total	\$ 90,499	\$ 37,331	\$ 1,995	\$ 4,180	\$ 10,569	\$ 144,574	\$ 33,684	\$ 11,336	\$ 189,594

The nature of operating expenses by function for the year ended June 30, 2020, are as follows (in thousands):

	Instructional and Academic	Curatorial, Libraries, Collections and Exhibitions	Museum Education	Other Programs	Auxiliary Activities	Total Program Services	Management and General	Fundraising and Member Development	Total
Salaries and wages	\$ 60,018	\$ 19,596	\$ 2,068	\$ 2,342	\$ 2,839	\$ 86,863	\$ 17,020	\$ 6,351	\$ 110,234
Fringe benefits	15,868	6,737	622	744	916	24,887	7,419	2,141	34,447
Contracted services	8,197	8,269	463	381	2,611	19,921	3,494	2,104	25,519
Equipment, rental, and maintenance	7,944	1,461	60	101	3,594	13,160	1,963	86	15,209
Travel and entertainment	1,568	1,133	50	46	22	2,819	330	130	3,279
Telephone, copy and postage	1,158	162	5	126	216	1,667	452	386	2,505
Supplies, books, and subscriptions	1,288	1,490	57	93	264	3,192	192	121	3,505
Publications and printing	1,002	478	41	110	100	1,731	177	562	2,470
Publicity and promotions	914	8	-	1,184	-	2,106	86	58	2,250
Cost of sales	245	126	-	25	2,947	3,343	19	-	3,362
Utilities	1,289	2,511	80	-	873	4,753	112	75	4,940
Interest	-	-	-	-	-	-	6,010	-	6,010
Bad debt	7	-	-	26	-	33	1,298	-	1,331
Other	3,368	4,101	125	1,054	521	9,169	1,731	863	11,763
Total	\$ 102,866	\$ 46,072	\$ 3,571	\$ 6,232	\$ 14,903	\$ 173,644	\$ 40,303	\$ 12,877	\$ 226,824

SUPPLEMENTARY SCHEDULES

The Art Institute of Chicago

SCHEDULE OF OPERATING ACTIVITIES

Year ended June 30, 2021
(in thousands)

	Museum	School	Corporate Financial Services*	Total
Operating revenue and other support				
Tuition and fees (net of \$45,868 student aid)	\$ -	\$ 106,775	\$ -	\$ 106,775
Contributions	14,821	1,944	-	16,765
Chicago Park District	5,171	-	-	5,171
Museum admissions	5,245	-	-	5,245
Membership dues	7,661	-	-	7,661
Other program revenues and miscellaneous	491	1,645	-	2,136
Investment return designated for current use	13,602	3,519	-	17,121
Auxiliary activities	4,523	7,851	-	12,374
Net assets released from restrictions	25,575	15,221	-	40,796
	<u>77,089</u>	<u>136,955</u>	<u>-</u>	<u>214,044</u>
Total operating revenue and other support				
Operating expenses				
Program services				
Instructional and academic	-	90,499	-	90,499
Curatorial, libraries and collections	34,638	-	-	34,638
Special exhibitions	2,693	-	-	2,693
Museum education	1,995	-	-	1,995
Other programs	3,060	1,120	-	4,180
Auxiliary activities	5,265	5,304	-	10,569
	<u>47,651</u>	<u>96,923</u>	<u>-</u>	<u>144,574</u>
Total program services				
Management and general				
General administration	13,756	15,514	-	29,270
Interest and debt cost amortization	2,192	1,830	392	4,414
	<u>15,948</u>	<u>17,344</u>	<u>392</u>	<u>33,684</u>
Total management and general				
Fundraising and member development	9,278	2,058	-	11,336
	<u>9,278</u>	<u>2,058</u>	<u>-</u>	<u>11,336</u>
Total operating expenses	<u>72,877</u>	<u>116,325</u>	<u>392</u>	<u>189,594</u>
Change in net assets from operations before transfers	4,212	20,630	(392)	24,450
Transfers to quasi-endowment**	19,524	-	-	19,524
	<u>23,736</u>	<u>20,630</u>	<u>(392)</u>	<u>43,974</u>
Change in net assets from operations	<u>\$ 23,736</u>	<u>\$ 20,630</u>	<u>\$ (392)</u>	<u>\$ 43,974</u>

* The Institute's Corporate Financial Services activity represents internal bank activity that provides financing for various Museum and School initiatives and allocates certain other costs impacted by interest rate fluctuations.

** These amounts represent bequests and other gifts without donor restrictions, which were received and transferred for long-term investment as quasi-endowment funds.

The Art Institute of Chicago

SCHEDULE OF OPERATING ACTIVITIES

Year ended June 30, 2020

(in thousands)

	Museum	School	Corporate Financial Services*	Total
Operating revenue and other support				
Tuition and fees (net of \$49,878 student aid)	\$ -	\$ 128,027	\$ -	\$ 128,027
Contributions	13,770	2,373	-	16,143
Chicago Park District tax	5,633	-	-	5,633
Museum admissions	13,574	-	-	13,574
Membership dues	10,131	-	-	10,131
Other program revenues and miscellaneous	2,289	3,961	-	6,250
Investment return designated for current use	13,070	3,472	2,402	18,944
Auxiliary activities	8,741	12,128	-	20,869
Net assets released from restrictions	27,578	9,083	-	36,661
Total operating revenue and other support	94,786	159,044	2,402	256,232
Operating expenses				
Program services				
Instructional and academic	-	102,866	-	102,866
Curatorial, libraries and collections	41,467	-	-	41,467
Special exhibitions	4,605	-	-	4,605
Museum education	3,571	-	-	3,571
Other programs	3,947	2,285	-	6,232
Auxiliary activities	8,485	6,418	-	14,903
Total program services	62,075	111,569	-	173,644
Management and general				
General administration	14,980	19,313	-	34,293
Interest and debt cost amortization	2,400	2,093	1,517	6,010
Total management and general	17,380	21,406	1,517	40,303
Fundraising and member development	10,637	2,240	-	12,877
Total operating expenses	90,092	135,215	1,517	226,824
Change in net assets from operations before transfers	4,694	23,829	885	29,408
Transfers to quasi-endowment**	2,430	44	-	2,474
Transfers to short-term investment account***	2,803	-	-	2,803
Change in net assets from operations	<u>\$ 9,927</u>	<u>\$ 23,873</u>	<u>\$ 885</u>	<u>\$ 34,685</u>

* The Institute's Corporate Financial Services activity represents internal bank activity that provides financing for various Museum and School initiatives and allocates certain other costs impacted by interest rate fluctuations.

** These amounts represent bequests and other gifts without donor restrictions, which were received and transferred for long-term investment as quasi-endowment funds.

*** These amounts represent gifts without donor restriction that have been transferred for short-term investments for future use.

The Art Institute of Chicago

SCHEDULE OF EXPENSES BY NATURAL CLASSIFICATION

Year ended June 30, 2021
(in thousands)

	<u>Museum</u>	<u>School</u>	<u>Corporate Financial Services*</u>	<u>Total</u>
Salaries and wages	\$ 35,362	\$ 63,011	\$ -	\$ 98,373
Fringe benefits	11,013	17,351	-	28,364
Contracted services	8,447	9,815	-	18,262
Equipment, rental and maintenance	3,207	10,795	-	14,002
Travel and entertainment	20	94	-	114
Telephone, copy and postage	791	1,372	-	2,163
Supplies, books and subscriptions	1,449	957	-	2,406
Publications and printing	878	585	-	1,463
Publicity and promotions	1,094	630	-	1,724
Cost of sales	1,640	150	-	1,790
Utilities	3,082	1,897	-	4,979
Bad debt	-	538	-	538
Interest	2,192	1,830	392	4,414
Other	3,703	7,299	-	11,002
	<u>72,878</u>	<u>116,324</u>	<u>392</u>	<u>189,594</u>
Total operating expenses				
Depreciation	14,618	9,967	-	24,585
	<u>87,496</u>	<u>126,291</u>	<u>392</u>	<u>214,179</u>
Total expenses, including depreciation				

* The Institute's Corporate Financial Services activity represents internal bank activity that provides financing for various Museum and School initiatives and allocates certain other costs impacted by interest rate fluctuations.

The Art Institute of Chicago

SCHEDULE OF EXPENSES BY NATURAL CLASSIFICATION

Year ended June 30, 2020
(in thousands)

	<u>Museum</u>	<u>School</u>	<u>Corporate Financial Services*</u>	<u>Total</u>
Salaries and wages	\$ 39,062	\$ 71,172	\$ -	\$ 110,234
Fringe benefits	13,283	21,164	-	34,447
Contracted services	12,546	12,973	-	25,519
Equipment, rental and maintenance	2,900	12,309	-	15,209
Travel and entertainment	1,537	1,742	-	3,279
Telephone, copy and postage	1,052	1,453	-	2,505
Supplies, books and subscriptions	2,001	1,504	-	3,505
Publications and printing	1,260	1,210	-	2,470
Publicity and promotions	1,204	1,046	-	2,250
Cost of sales	3,072	290	-	3,362
Utilities	3,082	1,858	-	4,940
Bad debt	-	1,331	-	1,331
Interest	2,400	2,093	1,517	6,010
Other	6,693	5,070	-	11,763
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Total operating expenses	90,092	135,215	1,517	226,824
Depreciation	15,328	10,602	-	25,930
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Total expenses, including depreciation	<u>\$ 105,420</u>	<u>\$ 145,817</u>	<u>\$ 1,517</u>	<u>\$ 252,754</u>

* The Institute's Corporate Financial Services activity represents internal bank activity that provides financing for various Museum and School initiatives and allocates certain other costs impacted by interest rate fluctuations.