

Financial Statements, Supplementary  
Information, and Report of Independent  
Certified Public Accountants

**The Art Institute of Chicago**

June 30, 2020 and 2019

**Contents**

	Page
Report of Independent Certified Public Accountants	3
Financial Statements	
Statements of financial position	5
Statements of activities	6
Statements of cash flows	8
Notes to the financial statements	9
Supplementary Schedules	
Schedules of operating activities	35
Schedules of expenses by natural classification	37

---

GRANT THORNTON LLP  
Grant Thornton Tower  
171 N. Clark Street, Suite 200  
Chicago, IL 60601

D +1 312 856 0200  
F +1 312 602 8099

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees  
The Art Institute of Chicago

We have audited the accompanying financial statements of The Art Institute of Chicago (a nonprofit corporation) (the Entity), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Art Institute of Chicago as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other matters**

The financial statements of The Art Institute of Chicago as of and for the year ended June 30, 2019 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2019 financial statements in their report dated October 4, 2019.

*Supplementary information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating activities and schedule of expenses by natural classification for the years ended June 30, 2020 and 2019, are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Chicago, Illinois  
October 23, 2020

The Art Institute of Chicago

STATEMENTS OF FINANCIAL POSITION

June 30,  
(in thousands)

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 39,555	\$ 31,374
Accounts and investment income receivable, net	10,504	8,950
Contributions receivable, net	88,617	83,736
Inventories, prepaid expenses and other assets	7,199	7,415
Investments	1,113,918	1,100,086
Property and equipment, net	405,878	421,224
Collections (Note 1)	-	-
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 1,665,671</u>	<u>\$ 1,652,785</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and other liabilities	\$ 34,735	\$ 40,999
Deferred revenues	12,356	15,569
Refundable advances	4,180	4,320
Pension liability	46,661	33,534
Bonds and notes payable	154,220	164,971
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>252,152</u>	<u>259,393</u>
<b>NET ASSETS</b>		
Without donor restrictions	479,698	491,923
With donor restrictions	933,821	901,469
	<u>                    </u>	<u>                    </u>
Total net assets	<u>1,413,519</u>	<u>1,393,392</u>
Total liabilities and net assets	<u>\$ 1,665,671</u>	<u>\$ 1,652,785</u>

The accompanying notes are an integral part of these financial statements.

The Art Institute of Chicago

STATEMENT OF ACTIVITIES

For the year ended June 30, 2020  
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating revenue and other support</b>			
Tuition and fees (Net of \$49,878 student aid)	\$ 128,027	\$ -	\$ 128,027
Contributions	21,420	38,991	60,411
Chicago Park District	5,633	-	5,633
Museum admissions	13,574	-	13,574
Membership dues	10,131	-	10,131
Other program revenues and miscellaneous	6,250	-	6,250
Investment return designated for current use	18,944	31,469	50,413
Auxiliary activities	20,869	-	20,869
Net assets released from restrictions	36,661	(36,661)	-
	<u>261,509</u>	<u>33,799</u>	<u>295,308</u>
<b>Operating expenses</b>			
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	6,232	-	6,232
Auxiliary activities	14,903	-	14,903
	<u>173,644</u>	<u>-</u>	<u>173,644</u>
Management and general			
General administration	34,293	-	34,293
Interest and debt cost amortization	6,010	-	6,010
	<u>40,303</u>	<u>-</u>	<u>40,303</u>
Fundraising and member development			
	<u>12,877</u>	<u>-</u>	<u>12,877</u>
Total operating expenses	<u>226,824</u>	<u>-</u>	<u>226,824</u>
Change in net assets from operations	<u>34,685</u>	<u>33,799</u>	<u>68,484</u>
<b>Non-operating items</b>			
Proceeds from the sale of art objects	-	6,334	6,334
Acquisition of art objects	(16,480)	-	(16,480)
Contributions for the purchase of art objects	-	6,273	6,273
Net assets released to fund acquisition of art objects	15,952	(15,952)	-
Investment return designated for art purchases	330	3,987	4,317
Contributions for capital and equipment	-	11,565	11,565
Net assets released for capital and equipment placed in service	789	(789)	-
Depreciation expense	(25,930)	-	(25,930)
Pension-related changes other than employer service cost	(15,057)	-	(15,057)
Investment return in excess of (less than) amounts designated for current operations and art purchases	(8,377)	(11,754)	(20,131)
Other non-operating	752	-	752
Other transfers	1,111	(1,111)	-
	<u>(12,225)</u>	<u>32,352</u>	<u>20,127</u>
<b>CHANGE IN NET ASSETS</b>	<u>(12,225)</u>	<u>32,352</u>	<u>20,127</u>
Net assets, beginning of year	<u>491,923</u>	<u>901,469</u>	<u>1,393,392</u>
Net assets, end of year	<u>\$ 479,698</u>	<u>\$ 933,821</u>	<u>\$ 1,413,519</u>

The accompanying notes are an integral part of this financial statement.

The Art Institute of Chicago

STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating revenue and other support</b>			
Tuition and fees (Net of \$48,400 student aid)	\$ 125,180	\$ -	\$ 125,180
Contributions	21,529	28,910	50,439
Chicago Park District	5,343	-	5,343
Museum admissions	18,349	-	18,349
Membership dues	9,550	-	9,550
Other program revenues and miscellaneous	9,503	-	9,503
Investment return designated for current use	17,748	30,447	48,195
Auxiliary activities	25,894	-	25,894
Net assets released from restrictions	40,255	(40,255)	-
	<u>273,351</u>	<u>19,102</u>	<u>292,453</u>
<b>Operating expenses</b>			
Program services			
Instructional and academic	104,519	-	104,519
Curatorial, libraries and collections	43,082	-	43,082
Special exhibitions	5,269	-	5,269
Museum education	4,103	-	4,103
Other programs	6,457	-	6,457
Auxiliary activities	15,092	-	15,092
	<u>178,522</u>	<u>-</u>	<u>178,522</u>
Management and general			
General administration	31,810	-	31,810
Interest and debt cost amortization	7,339	-	7,339
	<u>39,149</u>	<u>-</u>	<u>39,149</u>
Fundraising and member development			
	<u>14,393</u>	<u>-</u>	<u>14,393</u>
	<u>232,064</u>	<u>-</u>	<u>232,064</u>
Change in net assets from operations	<u>41,287</u>	<u>19,102</u>	<u>60,389</u>
<b>Non-operating items</b>			
Proceeds from the sale of art objects	-	13,122	13,122
Acquisition of art objects	(22,018)	-	(22,018)
Contributions for the purchase of art objects	-	13,211	13,211
Net assets released to fund acquisition of art objects	21,787	(21,787)	-
Investment return designated for art purchases	22	4,192	4,214
Contributions for capital and equipment	-	19,566	19,566
Net assets released for capital and equipment placed in service	553	(553)	-
Depreciation expense	(27,521)	-	(27,521)
Pension-related changes other than employer service cost	(14,716)	-	(14,716)
Investment return in excess of (less than) amounts designated for current operations and art purchases	(1,204)	1,487	283
Other transfers	29,949	(29,949)	-
	<u>28,139</u>	<u>18,391</u>	<u>46,530</u>
<b>CHANGE IN NET ASSETS</b>	<u>28,139</u>	<u>18,391</u>	<u>46,530</u>
Net assets, beginning of year	<u>463,784</u>	<u>883,078</u>	<u>1,346,862</u>
Net assets, end of year	<u>\$ 491,923</u>	<u>\$ 901,469</u>	<u>\$ 1,393,392</u>

The accompanying notes are an integral part of this financial statement.

**The Art Institute of Chicago**  
**STATEMENTS OF CASH FLOWS**  
Years ended June 30,  
(in thousands)

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 20,127	\$ 46,530
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	25,416	26,922
Gain on debt defeasance	(162)	-
Loss on retirement of property	7	133
Change in pension liability	18,127	17,439
Contributions restricted for permanent endowment	(2,502)	(12,593)
Contributions restricted for capital, net	(11,410)	(583)
Other losses and write offs	-	187
Net unrealized and realized gains on investments	(26,198)	(44,598)
Acquisitions and sales of art, net	10,146	8,896
Change in assets and liabilities		
Accounts and investment income receivable	(1,554)	1,434
Inventories, prepaid expenses and other assets	216	2,260
Contributions receivable	1,825	(27,056)
Accounts payable and other liabilities	(9,731)	(2,538)
Refundable advances	(140)	269
Deferred revenues	(3,213)	(1,653)
	<u>20,954</u>	<u>15,049</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(10,586)	(9,155)
Proceeds from sales of art objects	6,334	13,122
Acquisition of art objects	(18,017)	(20,921)
Proceeds from sales of investments	118,886	59,569
Purchases of investments	(107,651)	(35,364)
	<u>(11,034)</u>	<u>7,251</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for permanent endowment	4,259	18,610
Proceeds from contributions restricted for capital	4,078	653
Cost of issuance on new debt	(196)	-
Payments on notes payable	(103,380)	(31,125)
Proceeds from notes payable	93,500	-
	<u>(1,739)</u>	<u>(11,862)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	8,181	10,438
<b>Cash and cash equivalents, at the beginning of year</b>	<u>31,374</u>	<u>20,936</u>
<b>Cash and cash equivalents, at the end of year</b>	<u>\$ 39,555</u>	<u>\$ 31,374</u>
<b>Supplemental disclosure of noncash items</b>		
Cash paid for interest	\$ 7,251	\$ 8,122
Property and art purchase additions included in accounts payable	\$ 4,889	\$ 6,725

The accompanying notes are an integral part of these financial statements.



**The Art Institute of Chicago**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2020 and 2019**

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Art Institute of Chicago (“Institute”) is a not-for-profit corporation that exists to provide appreciation and education in visual fine arts and design. The Institute fulfills this purpose through:

- Its museum programs (“Museum”) by collecting, conserving, researching, publishing, exhibiting, and interpreting an internationally significant permanent collection of objects of art and by presenting temporary exhibitions of international importance, including loaned objects from other collections.
- Its academic programs (“School”) by offering comprehensive undergraduate and graduate curricula that provide for the preparation of visual artists, teachers of art, designers, and others in areas that include written, spoken, and media formats.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America (“US GAAP”).

The Institute’s resources are classified for accounting and reporting purposes into two categories of net assets, without donor restrictions or with donor restrictions, according to external donor-imposed restrictions and consistent with relevant law:

- Without donor restrictions - Net assets that are not subject to donor-imposed restrictions of a more specific nature than those that only obligate the Institute to utilize funds in furtherance of its mission. Revenues received and expenses incurred in conducting the programs and services of the Institute are presented in the financial statements as net assets without donor restrictions. By action of the board of trustees of the Institute (the “Board”) or its designee, certain net assets without donor restrictions have been designated for long-term investment or other special purposes.
- With donor restrictions - Net assets with donor restrictions carry specific donor-imposed restrictions on the expenditure or other use of contributed funds. Such restrictions may expire either because of the passage of time or because the Institute has fulfilled the restrictions. Expiration of restrictions on net assets with donor restrictions are reported as net assets released from restrictions. By action of the Board or its designee, certain donor restricted assets have been designated for long-term investment in the endowment fund. Also included in this category are net assets subject to donor-imposed restrictions that will never lapse and thus are restricted to long-term investment and maintained permanently as endowment funds. The portion of the donor-restricted endowment funds classified as with donor restrictions includes the original value of the assets contributed to the permanent endowment funds, subsequent contributions to such funds valued at the date of contribution, and earnings on such funds that have not been appropriated for expenditure and spent on the restricted purpose of the fund.

***Collections***

The value of the art objects in the permanent collection, and the holdings of the libraries, are excluded from the statements of financial position. Additions to the permanent collection are made either by gifts, bequests, or through purchases using Institute acquisition funds. Institute acquisition funds may be classified as with donor restrictions, in which either (i) the principal balance is to be held in perpetuity and only the income earned on principal balances may be used for acquisitions, or (ii) both the principal and earned income may be used for acquisitions; or without donor restrictions, representing funds designated by the Board to be used for acquisitions.

**The Art Institute of Chicago**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020 and 2019**

The withdrawal of works of art from the collection of the Institute is performed in accordance with a formal policy initially adopted in 1975 and last revised in fiscal year 2020. The objects are generally offered for sale at a public auction and the proceeds from such dispositions are classified as with donor restrictions.

In June 2020, the Institute early adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2019-03, *Updating the Definition of Collections*. Accordingly, proceeds from the sale of collection items are used to purchase or commission works of art for the permanent collection or for the direct care of objects within its permanent collection. Direct care of the collection means investing in objects in the Museum’s permanent collection by enhancing their life, usefulness, or quality, thereby ensuring they will continue to benefit the public. Direct care includes, but is not limited to, maintenance and protection, conservation, and management of the collection. All works of art and certain library collections are held for public exhibition, education, or research; they are protected, kept unencumbered, cared for, and preserved, and are subject to strict organizational policies governing their use. The value of the Institute’s permanent collection is not subject to reasonable estimation. Therefore, it is not included in the statements of financial position.

***Cash and Cash Equivalents***

Cash includes currency on hand, as well as demand deposits with banks or financial institutions. The Institute maintains its cash balances in various bank deposit accounts, which, at times, may exceed Federal Deposit Insurance Corporation limits. The Institute believes it is not exposed to any significant credit risk on cash balances. Cash equivalents are stated at cost and consist of institutional money market funds or bank deposits. Cash equivalents held by long-term investment managers are classified as investments; see Note 2 for further discussion.

***Contributions Receivable***

The receipt of unconditional promises to give with payments due in future periods is reported as support with donor restrictions, unless explicit donor stipulations or circumstances surrounding the receipt of the promise make clear that the donor intended it to be used to support activities of the current period. Unconditional promises to give are reported at fair value based upon discounted estimated future cash flows, net of the allowance for uncollectible pledges. The discount rate used is a risk-adjusted rate based on the yield curve for U.S. Treasury securities. Amortization of the discount is recorded as additional contributions.

***Inventories, Prepaid Expenses and Other Assets***

Inventories are stated at average cost based upon the moving-average cost method. Prepaid expenses include expenditures for rent and software or other licenses made in advance of the term of the services provided. Other assets primarily include art inventory donated to serve as a study collection for students of the School.

***Property and Equipment***

Legal title to the Institute’s Grant Park facility, a significant component of which has been designated a historical monument, and to the land on which it is situated, is vested in the Chicago Park District. The sole and permanent right to the use and occupancy of the land and buildings, including any future improvements, was vested at no cost to the Institute in 1893 as long as the Institute uses the property for the purposes for which it is incorporated, as such, the original cost of the facility and land is not reflected in the financial statements.

## The Art Institute of Chicago

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The Institute owns properties that provide instructional, public programming, administrative, storage, and student housing space. Portions of some of these facilities are leased to others. The land, buildings, building improvements, and related equipment, furniture, and fixtures are stated at cost, net of depreciation.

Depreciable assets are depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation expense, contributions for capital and equipment, and net assets released for capital and equipment placed in service are classified within non-operating items in the statements of activities.

Buildings constructed prior to 2005 on Grant Park property have a useful life of 50 years; the purchase, completed construction, and major improvements of all other buildings have a useful life of 40 years. Subsequent building improvements have useful lives ranging from 5 to 31.5 years. Equipment, furniture, and fixtures have useful lives ranging from 3 to 10 years.

#### ***Investments***

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Long-term investing is governed by the Institute's investment pool policy. The Investment Committee of the Board of Trustees ("Investment Committee") is responsible for oversight of all investments and compliance with the investment policies, which are approved by the Investment Committee and the Executive Committee of the Board of Trustees ("Executive Committee"). The investment policies attempt to provide a predictable stream of funding to Institute programs, while seeking to maintain the purchasing power of the assets. The pooled investments are invested in a widely diversified portfolio in a manner to promote both growth and current income to achieve the policy's objectives. Diversification of portfolio assets is an integral part of the Institute's investment philosophy to provide reasonable assurance that no single security or class of security will have a disproportionate impact on the total investment pool. As such, funds will be placed with managers who have distinct investment philosophies.

Purchases and sales of investments are recorded on trade dates and realized and unrealized gains and losses are determined on the basis of average cost of securities. Realized and unrealized appreciation or depreciation in the carrying value of investments is classified as part of either net assets without donor restrictions or net assets with donor restrictions in accordance with applicable donor and legal requirements.

#### ***Pension Liability***

The Institute sponsors an employer-defined benefit plan; the underfunded status of the plan is recognized as a liability in its statements of financial position. The Institute measures plan assets and benefit obligations as of the date of the Institute's fiscal year end.

#### ***Revenue Recognition***

The Institute recognizes revenue upon delivery of goods or services in an amount that reflects the consideration the Institute expects to receive in exchange for those goods or services. The Institute's revenue streams that fall under this guidance are derived primarily from tuition and student program fees, museum admissions, membership dues, auxiliary activities and proceeds from the sale of art objects.

- *Tuition and Student Program Fees* are generally collected in advance of or early in the School term and are initially recorded as deferred revenue. Tuition and fees are recognized ratably as revenue over the related School term. Generally, the Institute offers refunds for classes to students who decide to withdraw from a course prior to the add/drop date. After the add/drop date, generally no refunds are granted unless exceptional circumstances apply. The Institute does not recognize revenue until after the add/drop date. Historically, the Institute has not made material refunds after the add/drop date.

## The Art Institute of Chicago

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

- *Museum Admissions* revenue is recognized as visitors obtain access to the Museum.
- *Museum Membership* revenue is collected at the commencement of the membership period and allows the member unlimited visits to the Museum over the course of the membership period. Accordingly, membership revenue is deferred and recognized as revenue in equal monthly amounts during the applicable membership period.
- *Auxiliary Activities* are primarily related to School residence halls and the Museum retail shop operation. Payment of School housing fees is in advance of occupancy, and revenues from residence halls are recognized ratably over the period of stay. For the years ended June 30, 2020 and 2019, \$11.2 million and \$13.2 million, respectively, was recognized as residence hall revenue. Museum shop revenue is presented net of discounts and recognized when products are sold. Sales taxes collected from customers are excluded from revenues and the obligation is included in accrued liabilities until the taxes are remitted to the appropriate taxing authorities. For the years ended June 30, 2020 and 2019, \$6.8 million and \$9.0 million, respectively, was recognized as museum shop revenues.
- *Proceeds from the Sale of Art Objects* are recognized when the artwork is sold and are classified as non-operating revenues. For the years ended June 30, 2020 and 2019, \$6.3 million and \$13.1 million, respectively, was recognized as proceeds from the sale of art objects.

With the exception of memberships, which can be for a period of one or two years, all of the Institute's revenue from contracts with customers are from performance obligations with an initial expected duration of one year or less. Prices are specific to a distinct performance obligation and do not consist of multiple transactions.

The Institute records deferred revenue in situations when amounts are collected, but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met. Deferred revenues of \$8.7 million and \$13.1 million, as of June 30, 2020 and 2019, respectively, are classified as liabilities on the statements of financial position and primarily relates to prepaid membership and summer tuition. Associated accounts receivable for revenue from tuition and housing fees as of June 30, 2020 and 2019, were \$5.1 million and \$4.0 million, respectively, and allowance for doubtful accounts for tuition revenues as of June 30, 2020 and 2019, were \$2.6 million and \$2.0 million, respectively.

Apart from what was previously disclosed, the Institute did not record any impairment or credit losses, incremental costs or significant financing components for the years ended June 30, 2020 and 2019, and there were no significant changes in the judgments affecting the determination of the amount and timing of revenue recognized from revenue streams falling under this guidance.

Additionally, the Institute has revenue streams that are not within the scope of ASC 606, *Revenue from Contracts with Customers*, as follows:

- *Contributions* revenue includes gifts from donors and revenue from government-funded programs. Gifts from individual donors, foundations, and other organizations are recognized when received. Contributions received with restrictions imposed by the donor are classified as net assets with donor restrictions. Unconditional promises to give are recorded as revenue and contributions receivable when received at the net present value of the amounts expected to be collected. Government-funded programs are supported by grants received from the federal, state, and local governments. These grants are considered conditional contributions, and revenue recognition is deferred until the applicable barriers are met. Some of the government funded program revenue is from cost-reimbursable grants which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when we have incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

expenditures are reported as refundable advances in the statement of financial position. No amounts have been received in advance under federal and state contracts and grants. The Institute received cost-reimbursable grants of \$131,500 and \$174,500 that have not been recognized at June 30, 2020 and 2019 because qualifying expenditures have not yet been incurred.

- *In-Kind Support* - The Institute records various types of in-kind support, including contributed equipment, services, and other property. Contributions of tangible assets, excluding art objects and services, are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind support are included in contributions and offset by like amounts included in expenses or assets. The Institute receives a significant amount of volunteer time that does not meet the criteria for recognition as a contribution. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.
- *Investment returns* consist of unrealized and realized gains and losses on investments, dividend and interest income, net of investment management fees. Realized gains and losses are recognized at a point in time when the investment is sold. Unrealized gains and losses are recognized at a point in time based upon year-end valuation of investments.

**Income Taxes**

The Institute is a not-for-profit corporation exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3); the Institute is similarly exempt from state income taxes. Despite the general exemption from income taxation, the Institute is subject to federal and state income tax at corporate rates on its unrelated business income.

The FASB guidance requires tax effects from uncertain tax positions to be recognized only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined there are no material uncertain positions that require recognition in the financial statements. No provision was necessary for the Institute for unrelated business income as the organization has a net operating loss carryforward to cover any current year tax liability. There are no interest or penalties recognized in the financial statements.

**Other Transfers**

The Institute records reclassifications between net asset categories as other transfers. Other transfers primarily consist of donor clarification on previously undetermined restrictions.

In fiscal year 2019, \$30.6 million, of net assets that had been designated by the Board for long-term investment in the endowment was transferred from net assets with donor restrictions to net assets without donor restrictions based on the satisfaction of the original restrictions on those funds. The designation by the Board to invest those funds in the endowment remains in place. There were no such transfers in fiscal year 2020.

**Accounting Pronouncements Not Yet Adopted**

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the statement of financial position for both operating and capital leases. The guidance will be effective for fiscal years beginning after December 15, 2019. The Institute is currently evaluating the impact of adopting this standard.

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This guidance requires separate presentation of and additional disclosures about the recognition, valuation and use of contributed nonfinancial assets. The guidance is effective for fiscal years beginning after June 15, 2021, and early adoption is permitted. The Institute is currently evaluating the impact of adopting this standard.

**Management Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosures of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

Certain reclassifications have been made to prior-year balances to conform to current year presentation.

**Subsequent Events**

The Institute evaluated activity through October 23, 2020, the date the financial statements were issued, and concluded that no other subsequent events have occurred that would require recognition or that have not been disclosed elsewhere.

**NOTE 2 - INVESTMENTS**

Investments as of June 30, 2020 and 2019, consist of the following (in thousands):

	2020					
	Pooled		Non Pooled Investments		Total	
Cash equivalents	\$ 90,033	8.5%	\$ 1,084	1.9%	\$ 91,117	8.2%
Fixed income securities	58,423	5.5	5,085	8.9	63,508	5.7
Equity securities	532,331	50.4	5,211	9.2	537,542	48.3
Hedge funds	241,108	22.8	-	-	241,108	21.6
Venture capital and private equity	93,458	8.8	-	-	93,458	8.4
Real assets	41,704	4.0	-	-	41,704	3.7
Total assets held for investment	1,057,057	100.0	11,380	20.0	1,068,437	95.9
Assets held in trust by others	-	-	45,481	80.0	45,481	4.1
Total investments	\$ 1,057,057	100.0%	\$ 56,861	100.0%	\$ 1,113,918	100.0%

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

	2019					
	Pooled		Non Pooled Investments		Total	
Cash equivalents	\$ 87,935	8.4%	\$ 829	1.4%	\$ 88,764	8.1%
Fixed income securities	55,338	5.3	4,909	8.6	60,247	5.5
Equity securities	495,764	47.6	4,800	8.4	500,564	45.5
Hedge funds	256,915	24.6	-	-	256,915	23.4
Venture capital and private equity	96,054	9.2	-	-	96,054	8.7
Real assets	50,930	4.9	-	-	50,930	4.6
Total assets held for investment	1,042,936	100.0	10,538	18.4	1,053,474	95.8
Assets held in trust by others	-	-	46,612	81.6	46,612	4.2
Total investments	<u>\$ 1,042,936</u>	<u>100.0%</u>	<u>\$ 57,150</u>	<u>100.0%</u>	<u>\$ 1,100,086</u>	<u>100.0%</u>

Cash equivalents included in long-term investments may consist of short-term U.S. Treasury obligations, high-grade commercial paper, certificates of deposit, or money market funds. Equity and fixed-income securities consist of marketable securities invested directly or indirectly via mutual funds, separately managed accounts, institutional commingled vehicles, or hedge funds with marketable underlying investments. Hedge fund investments are invested in a variety of strategies. Underlying investments in these funds may include equities, fixed-income securities, commodities, currencies, or derivatives. Venture capital and private equity investments consist of limited partnerships invested in a variety of strategies. Underlying investments in these funds may include private equity and private debt. Real assets consist of real estate, oil and gas, and commodity investments invested via mutual funds, institutional commingled funds, hedge funds, or limited partnerships.

Investments include assets held in trust by others, the income from which is paid in whole or in part to the Institute. Assets held in trust by others include the Institute's beneficial interest in perpetual trusts, charitable remainder trusts, or pooled income funds held by third parties. The Institute recognizes the initial contribution, subsequent adjustments, and the asset at fair value based on the market value of the trust's underlying assets as provided by the trustee. Subsequent adjustments to the fair value are included in contributions with donor restrictions in the statements of activities. Income distributions received from the trusts are recognized in investment return designated for current use in accordance with the donor restrictions.

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The changes in fair value of assets held for investment and assets held in trust by others as of June 30, 2020 and 2019 are as follows (in thousands):

	2020			
	Assets Held for Investment		Assets Held	Total
	Pooled	Non Pooled	in Trust	
Change in fair value:				
Realized	\$ 24,549	\$ 262	\$ -	\$ 24,811
Unrealized	808	457	-	1,265
Dividend and interest income	7,907	228	2,137	10,272
Cash gifts and other additions	26,412	-	(1,131)	25,281
Transfers in (out)	10,009	132	-	10,141
Investment management fees	(3,189)	(19)	-	(3,208)
Allocation of spendable funds	(52,375)	(218)	(2,137)	(54,730)
Net change in fair value	14,121	842	(1,131)	13,832
Fair value, beginning of year	1,042,936	10,538	46,612	1,100,086
Fair value, end of year	<u>\$ 1,057,057</u>	<u>\$ 11,380</u>	<u>\$ 45,481</u>	<u>\$ 1,113,918</u>
	2019			
	Assets Held for Investment		Assets Held	Total
	Pooled	Non Pooled	in Trust	
Change in fair value:				
Realized	\$ 34,654	\$ 293	\$ -	\$ 34,947
Unrealized	9,402	249	-	9,651
Dividend and interest income	7,605	221	2,121	9,947
Cash gifts and other additions	19,065	-	(297)	18,768
Transfers in (out)	1,871	(74)	-	1,797
Investment management fees	(2,594)	(11)	-	(2,605)
Allocation of spendable funds	(50,069)	(219)	(2,121)	(52,409)
Net change in fair value	19,934	459	(297)	20,096
Fair value, beginning of year	1,023,002	10,079	46,909	1,079,990
Fair value, end of year	<u>\$ 1,042,936</u>	<u>\$ 10,538</u>	<u>\$ 46,612</u>	<u>\$ 1,100,086</u>

Realized and unrealized gains and investment income, net of management fees, are reported in the financial statements as investment return designated for current use, investment return designated for art purchases, and investment return in excess of amounts designated for current operations and art purchases in the statements of activities for the years ended June 30, 2020 and 2019.



The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The annualized rate of return is net of investment manager fees and is computed using monthly net returns of individual investment managers. The fair values (in thousands) and the rates of investment return on the pooled investments for the years ended June 30, 2020 and 2019, are summarized as follows:

	2020		2019	
	Fair Value	Rate of Return	Fair Value	Rate of Return
Pooled endowment funds investments	\$ 1,057,057	3.2%	\$ 1,042,936	5.0%

ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. Inputs are broadly defined under ASC 820 as assumptions market participants would use in pricing an asset or liability.

The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 - Unadjusted quoted prices at the measurement date in active markets for identical assets or liabilities that the reporting entity has the ability to access. Investments that are generally included in Level 1 are money market funds, mutual funds, and listed equities.
- Level 2 - Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. Investments that are generally included in this category are corporate bonds and institutional commingled funds.
- Level 3 - Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value may require significant management judgment or estimation.

In accordance with ASC 820, investments measured at the net asset value per share (“NAV”) or equivalent are not categorized within the fair value hierarchy. The Institute’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. The valuation techniques used by the Institute to measure different financial instruments at fair value are described below:

Investments in securities traded on a national securities exchange are stated at the last reported sales price on the date of valuation. Hedge funds and 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. For government and corporate bonds, fair values are generally obtained from third-party pricing services for comparable assets or liabilities.

Investments in limited partnerships are valued at fair value based on the applicable percentage ownership of the investment partnerships’ net assets as of the measurement date. In determining fair value, management utilizes valuations provided by the investment partnerships. The estimated fair values of certain investments of the investment partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective investment partnerships and may not reflect amounts that could be realized upon immediate sale nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a readily available market existed for these investments. Management obtains and considers the fund’s audited financial statements when evaluating the overall reasonableness of the recorded value. Audited information is typically available annually, based on the partnerships’ or funds’ year-end. Investments in private limited partnerships are valued based on the June 30 partner capital account balances as reported by the partnership to the Institute or as estimated by the Institute based on capital markets or other methods deemed appropriate.

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

	2020				
	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
<b>Pooled investments</b>					
Cash equivalents	\$ -	\$ 90,033	\$ -	\$ -	\$ 90,033
Fixed income securities	-	58,423	-	-	58,423
Equity securities	426,284	106,047	-	-	532,331
Hedge funds	241,108	-	-	-	241,108
Venture capital and private equity	93,458	-	-	-	93,458
Real assets	38,865	2,839	-	-	41,704
<b>Total pooled investments</b>	<b>799,715</b>	<b>257,342</b>	<b>-</b>	<b>-</b>	<b>1,057,057</b>
<b>Non pooled investments</b>					
Cash equivalents	-	1,084	-	-	1,084
Fixed income securities	-	2,052	3,033	-	5,085
Equity securities	-	5,211	-	-	5,211
Assets held in trust by others	-	-	-	45,481	45,481
<b>Total non pooled investments</b>	<b>-</b>	<b>8,347</b>	<b>3,033</b>	<b>45,481</b>	<b>56,861</b>
<b>Total investments</b>	<b>\$ 799,715</b>	<b>\$ 265,689</b>	<b>\$ 3,033</b>	<b>\$ 45,481</b>	<b>\$ 1,113,918</b>

The Institute's investments are classified as follows, based on fair values, as of June 30, 2019 (in thousands):

	2019				
	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
<b>Pooled investments</b>					
Cash equivalents	\$ -	\$ 87,935	\$ -	\$ -	\$ 87,935
Fixed income securities	-	55,338	-	-	55,338
Equity securities	386,127	109,637	-	-	495,764
Hedge funds	256,915	-	-	-	256,915
Venture capital and private equity	96,054	-	-	-	96,054
Real assets	46,887	4,043	-	-	50,930
<b>Total pooled investments</b>	<b>785,983</b>	<b>256,953</b>	<b>-</b>	<b>-</b>	<b>1,042,936</b>
<b>Non pooled investments</b>					
Cash equivalents	-	829	-	-	829
Fixed income securities	-	3,000	1,909	-	4,909
Equity securities	-	4,800	-	-	4,800
Assets held in trust by others	-	-	-	46,612	46,612
<b>Total non pooled investments</b>	<b>-</b>	<b>8,629</b>	<b>1,909</b>	<b>46,612</b>	<b>57,150</b>
<b>Total investments</b>	<b>\$ 785,983</b>	<b>\$ 265,582</b>	<b>\$ 1,909</b>	<b>\$ 46,612</b>	<b>\$ 1,100,086</b>

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The unfunded commitments, redemption frequency, and redemption notice period of the pooled investments held at NAV or its equivalent are as follows as of June 30, 2020 and 2019, (in thousands):

		2020				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Lockup or Gate	
Equity securities	\$ 426,284	\$ N/A	Daily-Annually	1-150 Days	One fund subject to a 3 year lockup	
Hedge funds	241,108	25,204	Monthly-Biennially	30-95 Days	None	
Venture capital and private equity	93,458	52,375	As directed by investment manager	N/A	N/A	
Real assets	38,865	53,494	As directed by investment manager	N/A	N/A	
Total	<u>\$ 799,715</u>	<u>\$ 131,074</u>				
		2019				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Lockup or Gate	
Equity securities	\$ 386,127	\$ N/A	Daily-Quarterly	1-60 Days	None	
Hedge funds	256,915	10,419	Monthly-Biennially	30-95 Days	None	
Venture capital and private equity	96,054	71,757	As directed by investment manager	N/A	N/A	
Real assets	46,887	49,483	As directed by investment manager	N/A	N/A	
Total	<u>\$ 785,983</u>	<u>\$ 131,659</u>				

**NOTE 3 - ENDOWMENT FUNDS**

The Institute establishes endowment funds for the purpose of investing assets in a manner that preserves the real value of the endowment principal and provides spendable funds that can be used to fulfill the purposes for which the endowments were established. The Institute's endowment funds consist of donor-restricted endowment funds and funds designated by the Board as funds functioning as endowments. The net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions, as well as based upon relevant law as further described below.

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation and was adopted by the State of Illinois.

The Board has interpreted the State of Illinois' UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies the following as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate endowment funds:

**The Art Institute of Chicago**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020 and 2019**

- (1) The duration and preservation of the fund
- (2) The mission of the Institute and the purposes of the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effects of inflation and deflation
- (5) The expected total return from income and appreciation of investments
- (6) Other resources of the Institute
- (7) The investment policies of the Institute

From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts. When donor endowment deficits exist, they are classified as a reduction of net assets with donor restrictions. As of June 30, 2020 and 2019, funds with original gift values totaling \$6.9 million and \$5.1 million were “underwater” by \$226,000 and \$87,000, respectively.

The Institute’s endowment net asset composition (including pledges) as of June 30, 2020 and 2019, is as follows (in thousands):

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Historical value of gifts to be held in perpetuity	\$ -	\$ 490,585	\$ 490,585
Term endowments	-	22,257	22,257
Appreciation	-	273,314	273,314
Board-designated endowment funds	336,443	17,879	354,322
Total funds	\$ 336,443	\$ 804,035	\$ 1,140,478
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Historical value of gifts to be held in perpetuity	\$ -	\$ 467,464	\$ 467,464
Term endowments	-	22,257	22,257
Appreciation	-	284,893	284,893
Board-designated endowment funds	336,642	16,123	352,765
Total funds	\$ 336,642	\$ 790,737	\$ 1,127,379

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Board-designated endowment funds were designated for the following purposes as of June 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Purchase of art objects	\$ 7,449	\$ 7,640
Purchase of books	1,199	1,229
Student aid	29,515	28,944
Museum exhibitions	7,258	7,432
Museum publications	1,774	1,819
Gallery maintenance, professorships and curatorships	20,244	19,465
Acquisitions or improvements of long-lived assets	14,551	7,694
Education, instruction, and other departmental purpose	46,119	41,386
General purpose	<u>226,213</u>	<u>237,156</u>
Total	<u>\$ 354,322</u>	<u>\$ 352,765</u>

Changes in endowment net assets for the year ended June 30, 2020, are as follows (in thousands):

	<u>2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 336,642	\$ 790,737	\$ 1,127,379
Investment return	11,605	22,665	34,270
Net depreciation on assets held in trust	-	(327)	(327)
Contributions	-	23,425	23,425
Appropriation of endowment assets for expenditure	(20,186)	(34,544)	(54,730)
Transfers to create board-designated endowment funds	24,677	2,065	26,742
Transfers to remove board-designated endowment funds	(16,201)	-	(16,201)
Other changes, net	<u>(94)</u>	<u>14</u>	<u>(80)</u>
Endowment net assets, end of year	<u>\$ 336,443</u>	<u>\$ 804,035</u>	<u>\$ 1,140,478</u>

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Changes in endowment net assets for the year ended June 30, 2019, are as follows (in thousands):

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 309,772	\$ 812,831	\$ 1,122,603
Investment return	16,593	35,332	51,925
Net depreciation on assets held in trust	-	(368)	(368)
Contributions	-	5,256	5,256
Appropriation of endowment assets for expenditure	(17,770)	(34,639)	(52,409)
Transfers to create board-designated endowment funds	25,504	2,704	28,208
Transfers to remove board-designated endowment funds	(28,036)	(315)	(28,351)
Other changes, net	30,579	(30,064)	515
Endowment net assets, end of year	<u>\$ 336,642</u>	<u>\$ 790,737</u>	<u>\$ 1,127,379</u>

***Relationship of Spending Policy to Investment Objectives***

The Institute's Executive Committee considers, among other factors, the standard of prudence prescribed by UPMIFA in determining the method to be used to appropriate endowment funds for expenditure.

The Institute's spendable endowment payout formula is a controlled growth distribution formula. For fiscal years 2020 and 2019, the spending is the prior year's endowment payout increased by the higher of the prior June 30th growth in the consumer price index ("CPI-U") as published by U.S. Bureau of Labor Statistics or the Higher Education Price Index ("HEPI") published by the Commonfund Institute.

Endowment spendable amounts are reassessed by the Executive Committee every three years or more frequently as conditions warrant. Prior-year accumulated capital gains are utilized to the extent necessary to meet the annual spendable objective. Depending upon market conditions and the needs and available resources of the Institute, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment or in excess of the spending policy as deemed prudent by the Executive Committee.

**NOTE 4 - FINANCIAL ASSETS AND LIQUIDITY RESOURCES**

As of June 30, 2020, \$359.4 million of the Institute's financial assets were without donor or other contractual restriction, including endowment returns that have been appropriated for expenditure for operations in the next twelve months. Of that amount, \$336.4 million has been designated for long-term investment in the endowment by the Board; however, action by the Board could remove the designations from such funds as needed at any time.

The Institute's financial assets consist primarily of investments and cash and cash equivalents. Of the Institute's \$1.1 billion pooled endowment portfolio, \$383 million was invested in funds with daily liquidity as of June 30, 2020. In addition, the Institute maintains lines of credit totaling \$55 million for short-term liquidity needs that may arise, of which \$45 million is available as of June 30, 2020.

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

As of June 30, 2019, \$359.0 million of the Institute's financial assets were without donor or other contractual restriction, including endowment returns that have been appropriated for expenditure for operations in the next twelve months. Of that amount, \$336.6 million has been designated for long-term investment in the endowment by the Board; however, action by the Board could remove the designations from such funds as needed at any time.

The Institute's financial assets consist primarily of investments and cash and cash equivalents. Of the Institute's \$1.0 billion pooled endowment portfolio, \$337.9 million was invested in funds with daily liquidity as of June 30, 2019. In addition, as of June 30, 2019, the Institute had lines of credit totaling \$55 million for short-term liquidity needs that may arise.

**NOTE 5 - CONTRIBUTIONS RECEIVABLE**

Unconditional promises to contribute to the Institute are recorded as contributions receivable at fair value based upon discounted estimated future cash flows, net of the allowance for uncollectible accounts. The discount rates for fiscal year 2020 ranged from 0.16% to 1.41% and for fiscal year 2019 ranged from 1.93% to 2.27%. Contributions receivable are expected to be realized as follows (in thousands):

	2020	2019
Collectible during the following periods:		
Year one	\$ 32,562	\$ 29,397
Year two	23,444	13,417
Year three	12,810	21,282
Year four	8,994	10,700
Year five	2,640	6,885
Thereafter	12,817	10,961
	<u>93,267</u>	<u>92,642</u>
Gross contributions receivable	93,267	92,642
Present value adjustment	(1,879)	(6,175)
Allowance for uncollectible contributions	<u>(2,771)</u>	<u>(2,731)</u>
	<u>\$ 88,617</u>	<u>\$ 83,736</u>
Net contributions receivable	<u>\$ 88,617</u>	<u>\$ 83,736</u>

In fiscal year 2020, the Institute adjusted the expected net collectible amount of a pledge receivable from an estate from \$2.5 million to \$5.0 million based on updated information on legal matters involving the estate and the current value of the estate's assets. This adjustment is reflected in the contributions with donor restrictions line in the fiscal year 2020 statement of activities.

In fiscal year 2019, the Institute adjusted the expected net collectible amount of a pledge receivable from an estate from \$9.3 million to \$11.3 million based on updated information on legal matters involving the estate and the current value of the estate's assets. This adjustment is reflected in the contributions with donor restrictions line in the fiscal year 2019 statement of activities.

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The Institute's unconditional contributions receivable are recorded at fair value and are classified as Level 2 within the fair value hierarchy, except that promises to give that are payable upon the death of the donor are classified as Level 3 due to uncertain timing. In determining the classification within the fair value hierarchy, the Institute considered historical and projected cash flow rates. The fair value calculations may not be indicative of net realizable value or reflective of future fair values. Contributions receivable are classified as follows in the fair value hierarchy as of June 30, 2020 and 2019 (in thousands):

	2020			
	Level 1	Level 2	Level 3	Total
Contributions receivable payable at a specified date	\$ -	\$ 52,731	\$ -	\$ 52,731
Contributions receivable payable at an uncertain future date	-	-	35,886	35,886
Total contributions receivable	\$ -	\$ 52,731	\$ 35,886	\$ 88,617

  

	2019			
	Level 1	Level 2	Level 3	Total
Contributions receivable payable at a specified date	\$ -	\$ 53,568	\$ -	\$ 53,568
Contributions receivable payable at an uncertain future date	-	-	30,168	30,168
Total contributions receivable	\$ -	\$ 53,568	\$ 30,168	\$ 83,736

**NOTE 6 - PROPERTY AND EQUIPMENT, NET**

Property and equipment as of June 30, 2020 and 2019, consist of the following (in thousands):

	2020	2019
Land	\$ 34,972	\$ 34,972
Buildings and improvements	699,592	694,721
Equipment, furniture, and fixtures	32,269	29,633
Total property and equipment	766,833	759,326
Construction in progress	6,879	4,320
Accumulated depreciation	(367,834)	(342,422)
Property and equipment, net	\$ 405,878	\$ 421,224



The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

**NOTE 7 - ACCOUNTS PAYABLE AND OTHER LIABILITIES**

Accounts payable and other liabilities as of June 30, 2020 and 2019, consist of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Accounts payable	\$ 13,570	\$ 19,690
Art purchase liability	3,345	4,845
Asset retirement obligations	5,811	5,831
Accrued salaries and benefits	8,378	5,917
Accrued interest payable	1,202	2,221
Other liabilities	<u>2,429</u>	<u>2,495</u>
Total accounts payable and other liabilities	<u>\$ 34,735</u>	<u>\$ 40,999</u>

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

The Institute is party to various legal proceedings and claims incidental to its business. Institute management currently believes that the ultimate outcome of these proceedings and/or claims, either individually or in the aggregate, will not have a material adverse effect on the Institute's statements of financial position, statements of activities, or statements of cash flows.

The Institute has operating lease agreements for academic, student housing and storage space, and office equipment expiring in various years through 2036. Certain operating leases provide for renewal options for periods from 1 to 10 years. Total lease expenses were \$7.7 million for each of the years ended June 30, 2020 and 2019, respectively.

Minimum future lease payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2020, are as follows (in thousands):

<u>Years Ending June 30,</u>	
2021	\$ 6,262
2022	6,027
2023	6,611
2024	6,662
2025	6,814
Thereafter	<u>39,157</u>
Total minimum lease payments	<u>\$ 71,533</u>

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 9 - BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2020 and 2019, consist of the following (in thousands):

	Principal 2020	Principal 2019	Final Maturity or Expiration	Principal Payable	Coupon Interest Rates at June 30
Public bonds:					
Fixed interest rate revenue bonds:					
Series 2010A <sup>1</sup>	\$ -	\$ 45,170	3/1/2040	Paid in full in April 2020	5.25%
Series 2012A <sup>1</sup>	-	31,550	3/1/2034	Paid in full in April 2020	5.00%
Series 2016 <sup>1</sup>	37,250	37,250	3/1/2038	Varying dates and amounts	3.13% to 5.00%
Taxable bond:					
Series 2012 <sup>1</sup>	<u>20,000</u>	<u>20,000</u>	3/1/2027	Varying dates and amounts	3.23% to 3.78%
Total public bonds	<u>57,250</u>	<u>133,970</u>			
Private debt:					
New York Life and affiliates \$60 million 2020 notes <sup>1</sup>	60,000	-	3/1/2050	Varying dates and amounts	2.65%
Wells Fargo \$24 million term loan <sup>2</sup>	-	24,000	10/24/2019	Paid in full in October 2019	1.94%
Bank of America \$23.5 million term loan <sup>5</sup>	23,500	-	3/1/2022	At expiration	1.95%
Bank of America \$20 million working capital line of credit <sup>3,4</sup>	5,000	-	4/30/2021	At expiration	LIBOR or bank reference rate based
JPMorgan Chase \$15 million working capital line of credit <sup>3,4</sup>	5,000	-	5/30/2022	At expiration	LIBOR or bank reference rate based
Northern Trust \$20 million working capital line of credit <sup>3,4</sup>	<u>-</u>	<u>-</u>	1/24/2022	At expiration	LIBOR or bank reference rate based
Total outstanding debt	150,750	157,970			
Unamortized premium, discount, and cost of issuance	<u>3,470</u>	<u>7,001</u>			
Total	<u>\$ 154,220</u>	<u>\$ 164,971</u>			

Notes

(1) Interest is payable on March 1 and September 1.

(2) Interest is payable quarterly.

(3) Interest is payable on varying dates.

(4) Interest rate resets on varying dates.

(5) Interest is payable monthly.

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The fair value of bonds payable as of June 30, 2020 and 2019, is \$124.2 million and \$142.8 million, respectively, based upon quoted market prices provided by a third-party pricing service. All tax-exempt bonds are issued through the Illinois Finance Authority. The aggregate scheduled maturities of bonds and notes payable are summarized as follows (in thousands):

<u>Years Ending June 30,</u>	
2021	\$ 12,000
2022	35,500
2023	3,000
2024	3,000
2025	3,000
Thereafter	<u>94,250</u>
Total	\$ <u>150,750</u>

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, 2020 and 2019. 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, 2020 and 2019, (in thousands):

	<u>2020</u>	<u>2019</u>
Contributions receivable for acquisition or improvement of long-lived assets funded wholly or partially by debt	\$ 13,901	\$ 13,795
Portion of perpetual endowments subject to a timing restriction under UPMIFA consistent with state law, these funds are available upon appropriation by the Board	162,780	168,776
Other net assets with donor restrictions available for debt obligations	<u>16,624</u>	<u>17,049</u>
Total net assets with donor restrictions available for debt obligations	<u>\$ 193,305</u>	<u>\$ 199,620</u>

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

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

**NOTE 10 - RESTRICTIONS ON NET ASSETS**

Net assets by donor restriction as of June 30, 2020 and 2019, are summarized as follows (in thousands):

	Net Assets Subject to Time and Purpose Restrictions		Net Assets to be Maintained in Perpetuity		Total Net Assets With Donor Restrictions	
	2020	2019	2020	2019	2020	2019
Purchase of art objects	\$ 58,825	\$ 53,943	\$ 63,015	\$ 62,807	\$ 121,840	\$ 116,750
Purchase of books	3,203	3,283	2,395	2,394	5,598	5,677
Student aid	29,440	29,876	48,386	46,495	77,826	76,371
Museum exhibitions	18,154	17,336	26,533	26,498	44,687	43,834
Museum publications	-	4,519	-	3,810	-	8,329
Gallery maintenance, professorships, and curatorships	82,257	78,769	172,272	147,834	254,529	226,603
Acquisitions or improvements of long-lived assets	39,211	20,010	-	-	39,211	20,010
Education, instruction, and other departmental purposes	125,264	130,072	81,323	78,171	206,587	208,243
Contribution receivable	29,195	36,964	24,407	26,164	53,602	63,128
Assets held in trust by others	520	494	44,959	46,116	45,479	46,610
General purpose	57,167	58,739	27,295	27,175	84,462	85,914
Total	<u>\$ 443,236</u>	<u>\$ 434,005</u>	<u>490,585</u>	<u>\$ 467,464</u>	<u>\$ 933,821</u>	<u>\$ 901,469</u>

The nature of restrictions on net assets released from donor restrictions for the years ended June 30, 2020 and 2019, are summarized as follows (in thousands):

	Released from Restriction	
	2020	2019
Purchase of art objects	\$ 15,952	\$ 21,787
Purchase of books	234	229
Student aid	4,584	5,725
Museum exhibitions	4,158	4,541
Museum publications	354	284
Gallery maintenance, professorships, and curatorships	11,187	10,064
Acquisitions or improvements of long-lived assets	789	553
Education, instruction, and other departmental purposes	16,144	19,412
Total	<u>\$ 53,402</u>	<u>\$ 62,595</u>

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

**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.

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, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Change in benefit obligations		
Benefit obligations - beginning of year	\$ 178,053	\$ 160,170
Service cost	3,070	2,723
Interest cost	6,410	6,782
Actuarial gain	12,425	17,323
Benefits paid	(13,371)	(8,945)
Curtailments	(812)	-
	<u>185,775</u>	<u>178,053</u>
Projected benefit obligation - end of year		
Change in plan assets		
Fair value of plan assets - beginning of year	144,519	139,075
Actual return on plan assets	2,966	9,389
Employer contribution	5,000	5,000
Benefits paid	(13,371)	(8,945)
	<u>139,114</u>	<u>144,519</u>
Fair value of plan assets - end of year		
Funded status at the end of the year	<u>\$ (46,661)</u>	<u>\$ (33,534)</u>

The pension plan items not yet recognized as a component of periodic pension cost, but included in net assets as of June 30, 2020 and 2019, are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Net actuarial loss	\$ 68,611	\$ 57,328
Prior-service cost	1,002	1,401
	<u>\$ 69,613</u>	<u>\$ 58,729</u>
Net amount recognized		

The accumulated benefit obligation as of June 30, 2020 and 2019, was \$170.5 million and \$160.0 million, respectively.

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

As of June 30, 2020 and 2019, components of net periodic benefit cost for the Plan consist of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Service cost	\$ 3,070	\$ 2,723
Interest cost	6,410	6,782
Expected return on plan assets	(7,468)	(7,312)
Amortization of prior service credit	307	307
Amortization of net actuarial loss	4,832	3,615
Curtailments	92	-
	<u>\$ 7,243</u>	<u>\$ 6,115</u>
Net periodic benefit cost		

**Assumptions**

Weighted-average assumptions used to determine the pension benefit obligation as of June 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	3.07%	3.65%
Salary growth rate	3.50	3.75

Weighted-average assumptions used to determine pension net periodic cost for the years ended June 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	3.65%	4.31%
Expected return on plan assets	5.30	5.40
Salary growth rate	3.75	3.75

**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):

<u>Year Ending June 30:</u>	
2021	\$ 11,028
2022	11,273
2023	11,648
2024	12,118
2025	12,081
2026 - 2030	57,987

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

**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, 2020 and 2019:

	2020	2019	Target Allocation
Asset category:			
Equity securities	75%	74%	75%
Fixed income securities and cash and cash equivalents	25	26	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.

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

	2020				
	Investments Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
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>

The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The Plan's investments are classified as follows, based on fair values, as of June 30, 2019 (in thousands):

	2019				Total
	Investments Measured at NAV or Equivalent	Level 1	Level 2	Level 3	
Plan assets, at fair value:					
Cash and cash equivalents	\$ 3,010	\$ -	\$ -	\$ -	\$ 3,010
Equity securities	45,777	25,860	-	-	71,637
Fixed income securities	56,877	12,995	-	-	69,872
	<u>\$ 105,664</u>	<u>\$ 38,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 144,519</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 \$6.2 million and \$5.9 million, respectively, for the years ended June 30, 2020 and 2019. Employer contributions to the supplemental retirement plan totaled \$278,000 and \$218,000, respectively, for the years ended June 30, 2020 and 2019.

**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.

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	<u>\$ 102,866</u>	<u>\$ 46,072</u>	<u>\$ 3,571</u>	<u>\$ 6,232</u>	<u>\$ 14,903</u>	<u>\$ 173,644</u>	<u>\$ 40,303</u>	<u>\$ 12,877</u>	<u>\$ 226,824</u>



The Art Institute of Chicago

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The nature of operating expenses by function for the year ended June 30, 2019, 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	\$ 59,285	\$ 18,989	\$ 2,098	\$ 1,945	\$ 2,437	\$ 84,754	\$ 16,397	\$ 6,868	\$ 108,019
Fringe benefits	14,921	6,142	586	561	727	22,937	4,944	2,171	30,052
Contracted services	8,447	9,627	685	872	2,568	22,199	3,515	2,159	27,873
Equipment, rental, and maintenance	9,092	1,948	73	149	3,623	14,885	2,247	155	17,287
Travel and entertainment	2,071	1,386	131	83	8	3,679	556	172	4,407
Telephone, copy and postage	1,278	245	5	54	230	1,812	446	626	2,884
Supplies, books, and subscriptions	1,664	1,781	79	106	285	3,915	135	157	4,207
Publications and printing	1,198	539	63	69	130	1,999	221	665	2,885
Publicity and promotions	1,000	9	-	1,469	3	2,481	78	34	2,593
Cost of sales	329	234	-	43	3,543	4,149	522	-	4,671
Utilities	1,369	2,695	93	-	997	5,154	120	86	5,360
Interest	-	-	-	-	-	-	7,340	-	7,340
Bad debt	-	-	-	-	-	-	790	-	790
Other	3,865	4,756	290	1,106	541	10,558	1,838	1,300	13,696
<b>Total</b>	<b>\$ 104,519</b>	<b>\$ 48,351</b>	<b>\$ 4,103</b>	<b>\$ 6,457</b>	<b>\$ 15,092</b>	<b>\$ 178,522</b>	<b>\$ 39,149</b>	<b>\$ 14,393</b>	<b>\$ 232,064</b>

**SUPPLEMENTARY SCHEDULES**

The Art Institute of Chicago

SCHEDULE OF OPERATING ACTIVITIES

For the year ended June 30, 2020  
(in thousands)

	Museum	School	Corporate Financial Services*	Total
<b>Operating revenue and other support</b>				
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
<b>Total operating revenue and other support</b>	<b>94,786</b>	<b>159,044</b>	<b>2,402</b>	<b>256,232</b>
<b>Operating expenses</b>				
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
<b>Total program services</b>	<b>62,075</b>	<b>111,569</b>	<b>-</b>	<b>173,644</b>
Management and general				
General administration	14,980	19,313	-	34,293
Interest and debt cost amortization	2,400	2,093	1,517	6,010
<b>Total management and general</b>	<b>17,380</b>	<b>21,406</b>	<b>1,517</b>	<b>40,303</b>
Fundraising and member development	10,637	2,240	-	12,877
<b>Total operating expenses</b>	<b>90,092</b>	<b>135,215</b>	<b>1,517</b>	<b>226,824</b>
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
<b>Change in net assets from operations</b>	<b>\$ 9,927</b>	<b>\$ 23,873</b>	<b>\$ 885</b>	<b>\$ 34,685</b>

\* 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 OPERATING ACTIVITIES

For the year ended June 30, 2019  
(in thousands)

	Museum	School	Corporate Financial Services*	Total
<b>Operating revenue and other support</b>				
Tuition and fees (Net of \$48,400 student aid)	\$ -	\$ 125,180	\$ -	\$ 125,180
Contributions	13,744	1,975	-	15,719
Chicago Park District tax	5,343	-	-	5,343
Museum admissions	18,349	-	-	18,349
Membership dues	9,550	-	-	9,550
Other program revenues and miscellaneous	3,227	6,276	-	9,503
Investment return designated for current use	12,407	2,556	2,785	17,748
Auxiliary activities	11,615	14,279	-	25,894
Net assets released from restrictions	29,587	10,668	-	40,255
	<u>103,822</u>	<u>160,934</u>	<u>2,785</u>	<u>267,541</u>
<b>Operating expenses</b>				
Program services				
Instructional and academic	-	104,519	-	104,519
Curatorial, libraries and collections	43,082	-	-	43,082
Special exhibitions	5,269	-	-	5,269
Museum education	4,103	-	-	4,103
Other programs	3,774	2,683	-	6,457
Auxiliary activities	8,470	6,622	-	15,092
	<u>64,698</u>	<u>113,824</u>	<u>-</u>	<u>178,522</u>
Management and general				
General administration	14,014	17,796	-	31,810
Interest and debt cost amortization	2,616	2,460	2,263	7,339
	<u>16,630</u>	<u>20,256</u>	<u>2,263</u>	<u>39,149</u>
Fundraising and member development	<u>11,738</u>	<u>2,655</u>	<u>-</u>	<u>14,393</u>
	<u>93,066</u>	<u>136,735</u>	<u>2,263</u>	<u>232,064</u>
Change in net assets from operations before transfers	10,756	24,199	522	35,477
Transfers to quasi-endowment**	5,704	106	-	5,810
<b>Change in net assets from operations</b>	<u>\$ 16,460</u>	<u>\$ 24,305</u>	<u>\$ 522</u>	<u>\$ 41,287</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 EXPENSES BY NATURAL CLASSIFICATION

For the 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
<b>Total operating expenses</b>	<b>90,092</b>	<b>135,215</b>	<b>1,517</b>	<b>226,824</b>
Depreciation	15,328	10,602	-	25,930
<b>Total expenses, including depreciation</b>	<b>\$ 105,420</b>	<b>\$ 145,817</b>	<b>\$ 1,517</b>	<b>\$ 252,754</b>

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

The Art Institute of Chicago

SCHEDULE OF EXPENSES BY NATURAL CLASSIFICATION

For the year ended June 30, 2019  
(in thousands)

	<u>Museum</u>	<u>School</u>	<u>Corporate Financial Services*</u>	<u>Total</u>
Salaries and wages	\$ 37,683	\$ 70,336	\$ -	\$ 108,019
Fringe benefits	11,096	18,956	-	30,052
Contracted services	14,602	13,271	-	27,873
Equipment, rental and maintenance	3,579	13,708	-	17,287
Travel and entertainment	2,028	2,379	-	4,407
Telephone, copy and postage	1,299	1,585	-	2,884
Supplies, books and subscriptions	2,358	1,849	-	4,207
Publications and printing	1,421	1,464	-	2,885
Publicity and promotions	1,369	1,224	-	2,593
Cost of sales	3,778	893	-	4,671
Utilities	3,301	2,059	-	5,360
Bad debt	-	790	-	790
Interest	2,617	2,460	2,263	7,340
Other	7,935	5,761	-	13,696
	<u>93,066</u>	<u>136,735</u>	<u>2,263</u>	<u>232,064</u>
<b>Total operating expenses</b>	<b>93,066</b>	<b>136,735</b>	<b>2,263</b>	<b>232,064</b>
Depreciation	<u>16,387</u>	<u>11,134</u>	<u>-</u>	<u>27,521</u>
<b>Total expenses, including depreciation</b>	<b><u>\$ 109,453</u></b>	<b><u>\$ 147,869</u></b>	<b><u>\$ 2,263</u></b>	<b><u>\$ 259,585</u></b>

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