In fiscal year 2015, the Art Institute of Chicago’s consolidated operating revenues exceeded expenses by $20 million, marking its sixth straight year of consolidated surplus operations. Operating as a single nonprofit corporation comprising the School of the Art Institute and the museum, the Art Institute’s strength lies in the union of two operating programs of similar size with different sources of income, patterns of expenditure, and operating models. However, the School and the museum share a culture of entrepreneurialism and discipline that have enabled them to produce strong operating results separately and in aggregate.

During the year, long-term debt of $75 million was repaid, and a short-term loan of $24 million was undertaken at the end of 2014 to purchase land for the School’s future development. The interest on the debt for the land purchase and related costs are being funded by a parking lot lease that is currently operating on the site. At the end of fiscal year 2015, total debt stood at $230 million, down from a high of $331 million in fiscal year 2009 (to finance the Modern Wing).

The Art Institute enjoys a strong bond rating: AA- stable outlook with Standard and Poor’s and A1 positive outlook with Moody’s. Discipline in paying down debt, careful financial stewardship, diverse revenue streams, and strong operating results have been cited by bond ratings agencies as a feature of the Art Institute that adds to its solidity and strength.

Net assets, measured as assets minus liabilities, were $1.2 billion at June 30, 2015, having grown steadily from fiscal year 2009.

![Net Assets by Year](chart.png)
Investment Performance
While it was a challenging year for most investors, the return for the pooled investments of the Art Institute was 3.6% for the year ended June 30, 2015, which puts it above median for a universe of charitable foundations and endowments. Over the longer term, the good stewardship of the endowment has produced annualized returns for three and five years of 11.3% and 11.1%, respectively. The performance hurdle for the endowment is to produce returns sufficient to cover the amount appropriated for programmatic expenditures (which was 4.8% in FY15) and to keep pace with inflation. The returns for these periods have handily exceeded that hurdle.

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<th>Art Institute of Chicago Endowment Total Fund Performance</th>
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<tr>
<td>Annualized</td>
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<td>1 Year</td>
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<td>Total Fund</td>
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<td>Total Endowment/Foundation Median</td>
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Museum Operations
The museum’s operating surplus of $1.4 million represents the fruits of its great fiscal discipline and its efforts to increase earned revenues as well as its notable successes in increasing membership and the net income from admissions and other auxiliary enterprises.

Overall, museum attendance was 1.5 million, an increase of 9.6% from the prior year. Museum memberships increased by 1% to 98,726 members. Combined, the revenues from museum memberships and admissions increased by 9.9% compared to fiscal year 2014. The Art Institute is second only to its peer institutions in New York City in regard to the percentage of its operations supported by earned revenue enterprises.

School Operations
The School’s surplus of $18.3 million for fiscal year 2015 was notably higher than prior years. This surplus reflects planning efforts in anticipation of the fiscal year 2016 announcement of a reduction to the cost of education by 5%. Excess cash was used to pay down debt.

The School’s operations rely on net tuition, at 78% of total revenue. This grew to $109 million, an 11% increase over the prior year, propelled by strong enrollment and tuition increases. The School’s full-time-equivalent enrollment was 3,125 for fiscal year 2015.

Conclusion
Challenges remain, as they do for all cultural and educational institutions. “Trees don’t grow to the sky,” as the expression goes. School enrollment must be kept to manageable levels so that students have an optimal educational experience; the museum must constantly weigh mission appropriateness in its pursuit of earned income.

That is why philanthropy is critical for an institution as internationally renowned as the Art Institute of Chicago. While endowment performance has been strong, the endowment also needs to grow through gifts. And annual giving needs to increase as well in order to provide critical operating support. With strategic planning completed for the School and the museum, there is every indication that the Art Institute will be able to continue to inspire enthusiasm—and support—from our many audiences and generous donors.

Frederick H. Waddell
Treasurer and Chair of the Finance Committee