

**COLUMBIA COLLEGE CHICAGO**

Financial Statements

August 31, 2002 and 2001

(With Independent Auditors' Report Thereon)

# COLUMBIA COLLEGE CHICAGO

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303 East Wacker Drive  
Chicago, IL 60601

## Independent Auditors' Report

The Board of Trustees  
Columbia College Chicago:

We have audited the accompanying balance sheets of Columbia College Chicago (the College) as of August 31, 2002 and 2001, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Columbia College Chicago as of August 31, 2002 and 2001, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*KPMG LLP*

November 25, 2002



## COLUMBIA COLLEGE CHICAGO

### Balance Sheets

August 31, 2002 and 2001

<b>Assets</b>	<b>2002</b>	<b>2001</b>
Cash and cash equivalents	\$ 2,815,582	2,790,472
Student accounts receivable, less allowance of \$4,195,000 and \$3,038,000, respectively	1,896,963	1,844,709
Other accounts and interest receivable, net	274,734	204,542
Deposits and prepaid expenses	4,221,867	2,971,149
Grants and contributions receivable, net (note 3)	2,063,494	2,322,767
Mortgage receivable (note 4)	386,482	401,529
Investments (note 5)	46,547,803	52,315,493
Bond funds held in trust (note 5)	3,679,273	3,675,333
Unamortized bond issue costs, net	1,751,523	1,844,328
Land, buildings, and equipment, less accumulated depreciation (note 6)	103,193,611	99,667,213
Total assets	<u>\$ 166,831,332</u>	<u>168,037,535</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Note payable to bank (note 7)	\$ —	1,000,000
Deferred revenue	2,052,310	1,994,763
Accounts payable	4,255,944	5,984,912
Accrued expenses	3,383,321	4,284,442
Refundable deposits and prepayments	1,612,972	1,409,177
Accrued interest payable	533,876	568,449
Accrued pension cost (note 9)	9,817,378	637,315
Long-term debt (note 8)	54,730,000	55,985,000
Total liabilities	<u>76,385,801</u>	<u>71,864,058</u>
Commitments and contingencies (note 10)		
Net assets:		
Unrestricted	75,909,369	83,159,321
Temporarily restricted (note 11)	13,326,430	12,203,853
Permanently restricted (note 11)	1,209,732	810,303
Total net assets	<u>90,445,531</u>	<u>96,173,477</u>
Total liabilities and net assets	<u>\$ 166,831,332</u>	<u>168,037,535</u>

See accompanying notes to financial statements.

**COLUMBIA COLLEGE CHICAGO**

Statements of Activities

Years ended August 31, 2002 and 2001

	<b>2002</b>	
	<b>Unrestricted</b>	<b>Temporarily restricted</b>
Operating activities:		
Revenue:		
Tuition and fees, net of \$2,179,574 and \$1,953,730 in tuition allowances	\$ 102,005,865	—
Residence center, net of \$144,995 and \$136,394 in room allowances	2,630,883	—
Sales and services	1,025,785	13,529
Private gifts and grants	1,001,336	475,040
Contracts and sponsored activities	2,133,533	4,017,025
State appropriations	1,648,167	—
Interest and dividends	599,340	658,837
Other	348,640	—
Net assets released from restrictions	4,041,854	<b>(4,041,854)</b>
Total operating revenue	<u>115,435,403</u>	<u>1,122,577</u>
Expenses:		
Salaries and wages	56,553,389	—
Employee benefits	11,746,151	—
Supplies and services	20,169,754	—
Operation and maintenance of plant	9,845,316	—
Interest	2,357,677	—
Depreciation and amortization	7,216,853	—
Total operating expenses	<u>107,889,140</u>	<u>—</u>
Operating revenue in excess of expenses	7,546,263	1,122,577
Nonoperating activities:		
Net realized gain (loss) on sale of investments	<b>(2,521,270)</b>	—
Unrealized loss on investments	<b>(4,037,261)</b>	—
Capital gifts for facilities and collections	650,848	—
Increase in net assets before additional minimum pension adjustment	1,638,580	1,122,577
Additional minimum pension adjustment (note 9)	<b>(8,888,532)</b>	—
Change in net assets	<b>(7,249,952)</b>	1,122,577
Net assets at beginning of year	<u>83,159,321</u>	<u>12,203,853</u>
Net assets at end of year	\$ <u><u>75,909,369</u></u>	<u><u>13,326,430</u></u>

See accompanying notes to financial statements.

<b>Permanently restricted</b>	<b>Total</b>	<b>2001</b>		<b>Permanently restricted</b>	<b>Total</b>
		<b>Unrestricted</b>	<b>Temporarily restricted</b>		
—	102,005,865	89,056,788	—	—	89,056,788
—	2,630,883	2,412,257	—	—	2,412,257
—	1,039,314	1,331,136	16,469	—	1,347,605
274,429	1,750,805	601,930	413,115	98,289	1,113,334
125,000	6,275,558	1,845,788	2,534,266	5,000	4,385,054
—	1,648,167	1,551,476	—	—	1,551,476
—	1,258,177	1,184,556	841,569	—	2,026,125
—	348,640	618,910	—	—	618,910
—	—	3,023,546	(3,023,546)	—	—
<b>399,429</b>	<b>116,957,409</b>	<b>101,626,387</b>	<b>781,873</b>	<b>103,289</b>	<b>102,511,549</b>
—	56,553,389	48,755,244	—	—	48,755,244
—	11,746,151	10,612,311	—	—	10,612,311
—	20,169,754	18,671,806	—	—	18,671,806
—	9,845,316	9,578,379	—	—	9,578,379
—	2,357,677	2,751,404	—	—	2,751,404
—	7,216,853	7,072,805	—	—	7,072,805
—	107,889,140	97,441,949	—	—	97,441,949
<b>399,429</b>	<b>9,068,269</b>	<b>4,184,438</b>	<b>781,873</b>	<b>103,289</b>	<b>5,069,600</b>
—	(2,521,270)	9,160,944	(489,454)	—	8,671,490
—	(4,037,261)	(9,021,615)	—	—	(9,021,615)
—	650,848	566,451	—	—	566,451
<b>399,429</b>	<b>3,160,586</b>	<b>4,890,218</b>	<b>292,419</b>	<b>103,289</b>	<b>5,285,926</b>
—	(8,888,532)	—	—	—	—
<b>399,429</b>	<b>(5,727,946)</b>	<b>4,890,218</b>	<b>292,419</b>	<b>103,289</b>	<b>5,285,926</b>
<b>810,303</b>	<b>96,173,477</b>	<b>78,269,103</b>	<b>11,911,434</b>	<b>707,014</b>	<b>90,887,551</b>
<b>1,209,732</b>	<b>90,445,531</b>	<b>83,159,321</b>	<b>12,203,853</b>	<b>810,303</b>	<b>96,173,477</b>

**COLUMBIA COLLEGE CHICAGO**

Statements of Cash Flows

Years ended August 31, 2002 and 2001

	<b>2002</b>	<b>2001</b>
Cash flows from operating activities:		
Change in net assets	\$ (5,727,946)	5,285,926
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of plant and equipment	7,124,048	6,980,000
Amortization of bond issue costs	92,805	92,805
Gain on disposal of fixed assets	—	(13,300)
Donation of fixed assets and collections	(650,848)	(254,101)
Net loss on investments	6,558,531	350,125
Capital gifts for facilities and collections	—	(312,350)
Gifts to endowment	(399,429)	(103,289)
Changes in assets and liabilities:		
Student accounts receivable	(52,254)	(355,452)
Other receivables	(70,192)	653,629
Deposits and prepaid expenses	(1,250,718)	(28,110)
Grants and contributions receivable	259,273	(485,269)
Deferred revenue	57,547	(2,489,411)
Accounts payable	(1,728,968)	562,494
Accrued expenses	(901,121)	1,302,337
Refundable deposits and prepayments	203,795	250,994
Accrued interest payable	(34,573)	(40,551)
Accrued pension cost	9,180,063	—
Net cash provided by operating activities	12,660,013	11,396,477
Cash flows from investing activities:		
Proceeds from sale of investments	7,852,030	53,745,381
Purchase of investments	(8,646,811)	(68,413,045)
Principal payments received on mortgage receivable	15,047	14,971
Purchase of land, buildings, and equipment (net of disposals)	(9,999,598)	(11,143,829)
Net cash used in investing activities	(10,779,332)	(25,796,522)
Cash flows from financing activities:		
Proceeds from capital gifts for facilities and collections	—	312,350
Proceeds from gifts to endowment	399,429	103,289
Proceeds from bank note	(1,000,000)	1,000,000
Principal payments on long-term debt	(1,255,000)	(1,115,000)
Payment of bond issue costs	—	(14,503)
Net cash provided by (used in) financing activities	(1,855,571)	286,136
Net increase (decrease) in cash and cash equivalents	25,110	(14,113,909)
Cash and cash equivalents at beginning of year	2,790,472	16,904,381
Cash and cash equivalents at end of year	\$ 2,815,582	2,790,472
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	\$ 2,350,542	2,783,470
Supplementary disclosure of non-cash transactions:		
Donated fixed assets and collections	\$ 650,848	254,101

See accompanying notes to financial statements.

# COLUMBIA COLLEGE CHICAGO

## Notes to Financial Statements

August 31, 2002 and 2001

### (1) Description of Organization

Columbia College Chicago (the College) is a private, nonprofit, fully accredited college offering comprehensive academic programs in the performing, visual, communications, and writing arts within a liberal arts framework. The College is an urban institution located in Chicago's south Loop that enrolls students primarily from the Chicago area, but also from across the country and around the world.

### (2) Summary of Significant Accounting Policies

The financial statements of the College have been prepared on the accrual basis. Significant accounting policies followed by the College are described below.

#### (a) *Basis of Presentation*

To ensure the observance of limitations and restrictions placed on the use of resources available, the College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with activities or objectives of the College.

For external reporting purposes, however, the College's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as unrestricted, temporarily restricted, and permanently restricted as follows:

- **Unrestricted** – net assets that are not subject to donor-imposed restrictions.
- **Temporarily Restricted** – net assets that are subject to donor-imposed restrictions that will be met either by actions of the College or the passage of time.
- **Permanently Restricted** – net assets that are subject to donor-imposed restrictions to be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

#### (b) *Revenue*

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

## COLUMBIA COLLEGE CHICAGO

### Notes to Financial Statements

August 31, 2002 and 2001

Private gifts, including unconditional promises to give (i.e., pledges), are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful pledges receivable is provided based upon the administration's judgment considering such factors as the creditworthiness of the donor, prior collection history, type of contribution, and nature of the fundraising activity.

Contributions received with donor-imposed restrictions are reported as revenue of the temporarily restricted net asset class and released to the unrestricted net asset class when the restriction has been met. Contributions of land, buildings, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with donor-imposed use restrictions are reported as revenue of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Revenue from government grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreement.

**(c) *Endowment Payout***

The College has adopted a spending policy in support of current operational budget requirements. This policy allows for the spending of a percentage (between 7% and 5% for fiscal years 2002 and 2001) of the average market value of pooled investments over the past three years. If investment yields (i.e. interest and dividends) are in excess of the established spending rate, such excess is returned to the endowment fund and reinvested. If investment yields are not sufficient to support the spending policy, the yield shortfall is provided from accumulated realized gains.

**(d) *Operations***

Operating results in the statements of activities reflect all transactions increasing or decreasing unrestricted net assets except those items of a capital nature, that is, associated with long-term investments or physical plant.

**(e) *Deferred Revenue***

Deferred revenue consists primarily of dormitory rental amounts paid in advance.

**(f) *Cash Equivalents***

Cash equivalents consist primarily of highly liquid debt instruments acquired with a maturity of three months or less.

**(g) *Investments***

Investments, excluding the investment in physical plant, are carried at fair value, which is generally determined based on quoted market prices.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2002 and 2001

**(h) Land, Buildings, and Equipment**

Land, buildings, and equipment are stated at cost or, in the case of gifts, fair value at date of donation, less accumulated depreciation. Buildings and equipment are depreciated using the straight-line method over their estimated useful lives, which are as follows:

Buildings	50 years
Building improvements	25 years
Library books	10 years
Furnishings and equipment	5-10 years

**(i) Income Taxes**

The College has received a determination letter from the Internal Revenue Service indicating that it is a tax-exempt organization as provided in Section 501(c)(3) of the Internal Revenue Code of 1986 and, except for taxes pertaining to unrelated business income, is exempt from Federal and state income taxes. No provision has been made for income taxes in the accompanying financial statements, as the College has had no significant unrelated business income.

**(j) Use of Estimates**

In order to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America, the administration of the College has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reporting of revenue, expenses, gains, and losses during the period. Actual results could differ from these estimates.

**(3) Pledges Receivable**

At August 31, 2002 and 2001, pledges receivable were \$1,437,776 and \$1,445,765, respectively. Of the amount outstanding at August 31, 2002, \$749,611 is expected to be collected within one year and \$688,165 is expected to be collected within two to five years.

**(4) Mortgage Receivable**

During fiscal year 2000, the College sold a facility to another not for profit organization under a mortgage note. The mortgage receivable is payable in monthly installments of \$4,224 including interest at 9% per annum. Total monthly payments of principal and interest will provide for payment in full by August 31, 2005.

Principal amounts due under the mortgage receivable at August 31, 2002, are as follows:

2003	\$	16,482
2004		18,016
2005		<u>351,984</u>
	\$	<u><u>386,482</u></u>

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2002 and 2001

**(5) Investments**

Investments at August 31, 2002 and 2001, consisted of the following:

	<u>2002</u>		<u>2001</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Long-term investments:				
Cash and cash equivalents held by investment managers	\$ 3,571,693	3,571,693	2,294,015	2,294,015
Mutual funds – bonds	685,690	734,399	649,109	676,384
Corporate/Government bonds	11,148,416	11,296,831	13,362,279	13,447,208
Corporate – preferred stocks	1,316,084	1,237,154	1,090,636	1,058,873
Corporate – common stocks	<u>34,080,432</u>	<u>29,707,726</u>	<u>35,070,818</u>	<u>34,839,013</u>
Total long-term investments	50,802,315	46,547,803	52,466,857	52,315,493
Bond funds held in trust – funds deposited with trustee for bond fund requirements (note 8)	<u>3,475,786</u>	<u>3,679,273</u>	<u>3,537,733</u>	<u>3,675,333</u>
	<u>\$ 54,278,101</u>	<u>50,227,076</u>	<u>56,004,590</u>	<u>55,990,826</u>

**(6) Land, Buildings, and Equipment**

Land, buildings, and equipment at August 31, 2002 and 2001, consisted of the following:

	<u>2002</u>	<u>2001</u>
Land	\$ 12,641,473	12,641,473
Buildings and improvements	95,009,277	89,607,859
Furnishings and equipment	34,429,463	30,173,549
Library books	5,865,910	5,315,112
Museum collection	6,055,806	5,603,062
Construction-in-process	<u>1,641,118</u>	<u>1,651,545</u>
	155,643,047	144,992,600
Less accumulated depreciation	<u>52,449,436</u>	<u>45,325,387</u>
	<u>\$ 103,193,611</u>	<u>99,667,213</u>

The College acquired one property during fiscal year 2001 in an effort to control long-term costs associated with executive housing. In November 2000, the College acquired the property located at 1258 North LaSalle for a cash payment in the amount of \$1,371,357.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2002 and 2001

**(7) Note Payable to Bank**

The College maintains a \$5,000,000 unsecured revolving line of credit from Harris Trust and Savings Bank to finance working capital needs. Advances under the line of credit bear interest at the London Interbank Offering Rate (LIBOR) (1.83% at August 31, 2002) plus 75 basis points for interest period of 30, 60, or 90 days, at the College's option. As of August 31, 2002, the College had not borrowed against the line of credit. The line of credit expires in April 2003. Amounts borrowed against the line in 2001 were repaid in their entirety as of September 30, 2001.

**(8) Long-term Debt**

Long-term debt at August 31, 2002 and 2001, is as follows:

	<u>2002</u>	<u>2001</u>
IEFA first mortgage notes:		
– 1992 Series issued June 1, 1992	\$ 7,795,000	8,515,000
– 1993 Series issued March 9, 1993	7,780,000	8,040,000
– 1998 Series issued February 11, 1998	21,555,000	21,830,000
– 2000 Series issued April 1, 2000	17,100,000	17,100,000
Land trust note issued April 30, 1993	<u>500,000</u>	<u>500,000</u>
	<u>\$ 54,730,000</u>	<u>55,985,000</u>

Maturities of long-term debt outstanding at August 31, 2002, are as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Thereafter</u>
IEFA notes:						
– 1992 Series	\$ 765,000	810,000	860,000	910,000	970,000	3,480,000
– 1993 Series	275,000	290,000	310,000	325,000	345,000	6,235,000
– 1998 Series	345,000	355,000	370,000	1,025,000	1,075,000	18,385,000
– 2000 Series	—	—	—	—	—	17,100,000
Land trust note	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>500,000</u>
	<u>\$ 1,385,000</u>	<u>1,455,000</u>	<u>1,540,000</u>	<u>2,260,000</u>	<u>2,390,000</u>	<u>45,700,000</u>

All first mortgage notes were issued by Illinois Educational Facilities Authority (IEFA) to finance the costs of the acquisition, construction, renovation, and equipping of educational or student housing facilities and are secured by such facilities. Interest rates range between 3.5% and 7%. Interest payments are due semiannually except for the Series 2000 mortgage notes on which interest is due monthly. Debt service reserve funds and other accounts are required by the 1992, 1993, and 1998 bond indentures. These funds are maintained in trust by U.S. Bank and are invested in government securities (see note 5). Income earnings from these funds are applied to interest payments.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2002 and 2001

The land trust note is secured by a certain Security Agreement and Collateral Assignment of Beneficial Interest in a Land Trust holding title to property located at 731 S Plymouth Court. The net book value of 731 S. Plymouth Court is approximately \$6.5 million at August 31, 2002. The note is payable in full on April 30, 2029; interest on the note is 5% payable annually.

The College also has an irrevocable letter of credit with Harris Trust and Savings Bank which is appended to a reimbursement agreement associated with the Series 2000 Bonds. This is to provide the necessary credit enhancement and liquidity that make the Series 2000 Bonds marketable at a reasonable interest cost. The amount available under this agreement is \$17,263,973 and carries an interest rate equal to the prime rate (4.75% at August 31, 2002) in effect at the time of use. The reimbursement agreement and LOC are for a three year term and are renewable annually.

**(9) Employee Benefit Plans**

**(a) Columbia College Pension Plan**

The College has a defined benefit pension plan, the Columbia College Pension Plan, covering all eligible employees. The College has received a determination letter from the Internal Revenue Service, indicating that the plan is exempt from tax under the applicable provisions of the Internal Revenue Code.

The following table sets forth the Columbia College Pension Plan's funded status and amounts recognized in the College's financial statements at August 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 24,483,699	23,919,030
Service cost	1,709,784	1,635,309
Interest cost	1,640,744	1,713,191
Actuarial loss (gain)	10,758,124	(630,866)
Benefits paid	<u>(2,089,011)</u>	<u>(2,152,965)</u>
Projected benefit obligation at end of year	\$ <u>36,503,340</u>	<u>24,483,699</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 25,219,670	24,183,135
Actual gain (loss) on plan assets	(1,948,345)	1,928,543
Employer contributions	2,533,444	1,260,957
Benefits paid	<u>(2,089,011)</u>	<u>(2,152,965)</u>
Fair value of plan assets at end of year	\$ <u>23,715,758</u>	<u>25,219,670</u>

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Funded status	\$ (12,787,582)	735,971
Unrecognized prior service cost	318,818	402,042
Unrecognized net actuarial loss	15,925,839	1,311,229
Unrecognized transition amount being recognized over 21 years	<u>(76,745)</u>	<u>(89,536)</u>
Prepaid benefit cost	<u>\$ 3,380,330</u>	<u>2,359,706</u>
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	\$ 3,380,330	2,359,706
Accrued benefit liability	(7,239,460)	—
Intangible asset	318,818	—
Minimum pension liability adjustment	<u>6,920,642</u>	<u>—</u>
Prepaid benefit cost	<u>\$ 3,380,330</u>	<u>2,359,706</u>

Net periodic pension cost for the plan for the fiscal years ended August 31, 2002 and 2001 included the following components:

	<u>2002</u>	<u>2001</u>
Service cost	\$ 1,709,784	1,635,309
Interest cost on projected benefit obligation	1,640,744	1,713,191
Expected return on plan assets	(1,908,141)	(2,017,656)
Net amortization and deferral	<u>70,433</u>	<u>70,433</u>
Net periodic pension cost	<u>\$ 1,512,820</u>	<u>1,401,277</u>

Discount rates of 7% and 7.5% were used in determining the actuarial present value of the projected benefit obligations for fiscal years 2002 and 2001, respectively. The expected long-term rate of return on assets was 7.5% for fiscal year 2002 and 8.5% for fiscal year 2001. The projected salary increase to normal retirement age for all employees for fiscal years 2002 and 2001 was 3%.

**(b) *Columbia College Employees' Retirement Plan***

The College has a second defined benefit pension plan, the Columbia College Employees' Retirement Plan. The College has received a determination letter from the Internal Revenue Service indicating that the plan is exempt from tax under the applicable provisions of the Internal Revenue Code.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2002 and 2001

The following table sets forth the funded status and amounts recognized in the College's financial statements for the Columbia College Employees' Retirement Plan at August 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 8,610,700	7,472,108
Service cost	482,068	531,727
Interest cost	590,409	541,452
Actuarial loss	964,117	570,918
Benefits paid	<u>(352,574)</u>	<u>(505,505)</u>
Projected benefit obligation at end of year	\$ <u>10,294,780</u>	<u>8,610,700</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 6,904,684	6,415,944
Actual gain (loss) on plan assets	(679,663)	517,405
Employer contributions	702,355	476,840
Benefits paid	<u>(352,574)</u>	<u>(505,505)</u>
Fair value of plan assets at end of year	\$ <u>6,574,802</u>	<u>6,904,684</u>
Funded status	\$ (3,719,978)	(1,706,016)
Unrecognized prior service cost	103,896	121,214
Unrecognized net actuarial loss	<u>3,109,950</u>	<u>947,487</u>
Accrued benefit cost	\$ <u>(506,132)</u>	<u>(637,315)</u>
Amounts recognized in the balance sheet consist of:		
Accrued benefit cost	\$ (506,132)	(637,315)
Accrued benefit liability	(2,071,786)	—
Intangible asset	103,896	—
Minimum pension liability adjustment	<u>1,967,890</u>	<u>—</u>
Accrued benefit cost	\$ <u>(506,132)</u>	<u>(637,315)</u>

Net periodic pension cost for the plan for the fiscal years ended August 31, 2002 and 2001, included the following components:

	<u>2002</u>	<u>2001</u>
Service cost	\$ 482,068	531,727
Interest cost on projected benefit obligation	590,409	541,452
Expected return on plan assets	(530,968)	(544,137)
Net amortization and deferral	<u>29,663</u>	<u>17,318</u>
Net periodic pension cost	\$ <u>571,172</u>	<u>546,360</u>

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Discount rates of 7% and 7.5% were used in determining the actuarial present value of the projected benefit obligations for fiscal years 2002 and 2001, respectively. The expected long-term rate of return on assets used was 7.5% for fiscal year 2002 and 8.5% for fiscal year 2001. The projected salary increase to normal retirement age for all employees for fiscal years 2002 and 2001 was 3%.

All benefit plans are noncontributory on the part of employees, with distributions of benefits being made to participants or their beneficiaries upon death, retirement, or disability. The benefits are based on years of service and the employee's compensation. The plan assets were invested in mutual funds, with American National Bank and Trust Company as the plan custodian through February 28, 2001. As of March 2001, the plan assets were invested in equity and fixed income securities under the investment management of Solomon Smith Barney, as the plan trustee. Funding contributions are based on the maximum amount allowed under the Employee Retirement Income Security Act of 1974 as actuarially determined.

**(10) Commitments and Contingencies**

**(a) Commitments**

The College is committed under various noncancelable operating ground leases on the properties at 600 and 624 South Michigan Avenue, 731 South Plymouth Court, and for certain auxiliary building space leases at other locations. Minimum lease payments payable in future years are as follows:

2003	\$	942,400
2004		796,200
2005		669,100
2006		125,000
2007		125,000
Later years (to 2142)		<u>5,062,500</u>
	\$	<u><u>7,720,200</u></u>

Property and equipment rental expense was approximately \$1,202,973 and \$1,471,000 for fiscal years 2002 and 2001, respectively.

At August 31, 2002, future minimum rental income for space leased to others is as follows:

2003	\$	200,000
2004		200,000
2005		170,000
2006		170,000
2007		170,000
Later years (to 2022)		<u>128,000</u>
	\$	<u><u>1,038,000</u></u>

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**(b) Contingencies**

The College is a defendant in various litigation matters arising in the normal course of business. In the opinion of management, the ultimate resolution of all such litigation matters will not have a material effect on the financial position or activities of the College.

The College has entered into a multi-school agreement for student housing with two other Chicago institutions of higher education to build the nation's largest joint residence known as University Center of Chicago (UCC). The facility will house more than 1600 students and live-in staff near the College's downtown campus and is expected to open for fall semester of 2004. The schools have formed a not for profit corporation called Education Advancement Fund, Inc. (EAF) that will develop, operate, and own UCC. Columbia is a 40.25% member of EAF and has only guaranteed to provide its proportionate share of the students for a period of one year. The value of the one year guarantee by the College is approximately \$7,425,000. The College is contingently liable for only those beds that are unfilled by its students for that one year period. The College is not responsible for any potential losses incurred by EAF. When EAF generates positive net assets, the College will account for its share of EAF on the equity method of accounting.

**(11) Restrictions and Limitations on Net Asset Balances**

Temporarily restricted net assets at August 31, 2002 and 2001 consisted of the following:

	<u>2002</u>	<u>2001</u>
Gifts and other unexpended resources available for:		
Academic programs	\$ 6,550,929	6,415,626
Scholarships and fellowships	4,333,646	3,534,700
Student services	538,230	562,896
Community programs	<u>1,903,625</u>	<u>1,690,631</u>
Total temporarily restricted net assets	<u>\$ 13,326,430</u>	<u>12,203,853</u>

Permanently restricted net assets consist of endowment funds at August 31, 2002 and 2001. The income earned on the investment of permanently restricted net assets is generally available for use in providing scholarships and supporting the College's educational programs.

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Notes to Financial Statements

August 31, 2002 and 2001

**(12) Expenses by Functional Classifications**

The following is a summary of total expenses classified by function for fiscal years 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Education and general:		
Instruction	\$ 63,557,418	57,683,224
Research	3,605,731	3,760,018
Public service	6,001,072	3,716,863
Library and other academic support	9,768,986	8,341,339
Student services	11,614,561	10,299,441
Institutional support	6,445,878	8,913,567
Auxiliary enterprises	4,685,980	2,791,428
Fundraising	2,209,514	1,936,069
	<u>\$ 107,889,140</u>	<u>97,441,949</u>