

COLUMBIA COLLEGE CHICAGO

Financial Statements

August 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

COLUMBIA COLLEGE CHICAGO

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KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212-

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, 2003 and 2002, 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, 2003 and 2002, 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

March 17, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.



COLUMBIA COLLEGE CHICAGO

Balance Sheets

August 31, 2003 and 2002

Assets	2003	2002
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 19,266,245	2,815,582
Student accounts receivable, less allowance of \$3,385,500 and \$4,195,000, respectively	1,231,468	1,896,963
Other accounts and interest receivable, net	223,210	274,734
Deposits and prepaid expenses	885,514	4,221,867
Grants and contributions receivable, net (note 3)	2,888,438	2,063,494
Mortgage receivable (note 4)	369,764	386,482
Investments (note 5)	51,286,942	46,547,803
Bond funds held in trust (note 5)	3,576,068	3,679,273
Unamortized bond issue costs	1,660,954	1,751,523
Land, buildings, and equipment, less accumulated depreciation (note 6)	<u>109,370,093</u>	<u>103,193,611</u>
Total assets	<u>\$ 190,758,696</u>	<u>166,831,332</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 7,331,188	4,255,944
Accrued expenses	6,508,650	3,383,321
Refundable deposits and deferred revenue	3,838,663	3,665,282
Accrued interest payable	509,456	533,876
Accrued pension cost (note 9)	20,078,660	9,817,378
Long-term debt (note 8)	<u>53,345,000</u>	<u>54,730,000</u>
Total liabilities	<u>91,611,617</u>	<u>76,385,801</u>
Commitments and contingencies (notes 7 and 10)		
Net assets:		
Unrestricted	83,454,400	75,909,369
Temporarily restricted (note 11)	14,333,071	13,326,430
Permanently restricted (note 11)	<u>1,359,608</u>	<u>1,209,732</u>
Total net assets	<u>99,147,079</u>	<u>90,445,531</u>
Total liabilities and net assets	<u>\$ 190,758,696</u>	<u>166,831,332</u>

See accompanying notes to financial statements.

COLUMBIA COLLEGE CHICAGO

Statements of Activities

Years ended August 31, 2003 and 2002

	2003			2002				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:								
Revenue:								
Tuition and fees, net of \$2,689,251 and \$2,179,574 in tuition allowances	\$ 119,146,115	—	—	119,146,115	102,005,865	—	—	102,005,865
Residence center, net of \$162,068 and \$144,995 in room allowances	3,081,465	—	—	3,081,465	2,630,883	—	—	2,630,883
Sales and services	1,125,617	25,966	—	1,151,583	1,025,785	13,529	—	1,039,314
Private gifts and grants	994,551	395,811	94,650	1,485,012	1,001,336	475,040	274,429	1,750,805
Contracts and sponsored activities	1,587,254	5,093,285	55,226	6,735,765	2,133,533	4,017,025	125,000	6,275,558
State appropriations	1,502,736	—	—	1,502,736	1,648,167	—	—	1,648,167
Interest and dividends	584,154	614,643	—	1,198,797	599,340	658,837	—	1,258,177
Other	363,965	—	—	363,965	348,640	—	—	348,640
Net assets released from restrictions	5,210,882	(5,210,882)	—	—	4,041,854	(4,041,854)	—	—
Total operating revenue	<u>133,596,739</u>	<u>918,823</u>	<u>149,876</u>	<u>134,665,438</u>	<u>115,435,403</u>	<u>1,122,577</u>	<u>399,429</u>	<u>116,957,409</u>
Expenses:								
Salaries and wages	61,965,123	—	—	61,965,123	56,553,389	—	—	56,553,389
Employee benefits	18,288,288	—	—	18,288,288	11,746,151	—	—	11,746,151
Supplies and services	23,051,014	—	—	23,051,014	20,169,754	—	—	20,169,754
Operation and maintenance of plant	10,729,156	—	—	10,729,156	9,845,316	—	—	9,845,316
Interest	2,221,762	—	—	2,221,762	2,357,677	—	—	2,357,677
Depreciation and amortization	7,416,215	—	—	7,416,215	7,216,853	—	—	7,216,853
Total operating expenses	<u>123,671,558</u>	<u>—</u>	<u>—</u>	<u>123,671,558</u>	<u>107,889,140</u>	<u>—</u>	<u>—</u>	<u>107,889,140</u>
Operating revenue in excess of expenses	9,925,181	918,823	149,876	10,993,880	7,546,263	1,122,577	399,429	9,068,269
Nonoperating activities:								
Net realized loss on sale of investments	(2,014,947)	—	—	(2,014,947)	(2,521,270)	—	—	(2,521,270)
Net unrealized gain (loss) on investments	5,905,159	—	—	5,905,159	(4,037,261)	—	—	(4,037,261)
Capital gifts for facilities and collections	223,680	2,000,000	—	2,223,680	650,848	—	—	650,848
Net assets released from restrictions	1,912,182	(1,912,182)	—	—	—	—	—	—
Increase in net assets before additional minimum pension liability adjustment	<u>15,951,255</u>	<u>1,006,641</u>	<u>149,876</u>	<u>17,107,772</u>	<u>1,638,580</u>	<u>1,122,577</u>	<u>399,429</u>	<u>3,160,586</u>
Additional minimum pension liability adjustment (note 9)	<u>(8,406,224)</u>	<u>—</u>	<u>—</u>	<u>(8,406,224)</u>	<u>(8,888,532)</u>	<u>—</u>	<u>—</u>	<u>(8,888,532)</u>
Changes in net assets	<u>7,545,031</u>	<u>1,006,641</u>	<u>149,876</u>	<u>8,701,548</u>	<u>(7,249,952)</u>	<u>1,122,577</u>	<u>399,429</u>	<u>(5,727,946)</u>
Net assets at beginning of year	<u>75,909,369</u>	<u>13,326,430</u>	<u>1,209,732</u>	<u>90,445,531</u>	<u>83,159,321</u>	<u>12,203,853</u>	<u>810,303</u>	<u>96,173,477</u>
Net assets at end of year	<u>\$ 83,454,400</u>	<u>14,333,071</u>	<u>1,359,608</u>	<u>99,147,079</u>	<u>75,909,369</u>	<u>13,326,430</u>	<u>1,209,732</u>	<u>90,445,531</u>

See accompanying notes to financial statements.

COLUMBIA COLLEGE CHICAGO

Statements of Cash Flows

Years ended August 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Change in net assets	\$ 8,701,548	(5,727,946)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of plant and equipment	7,325,646	7,124,048
Amortization of bond issue costs	90,569	92,805
Donation of fixed assets and collections	(216,580)	(650,848)
Net (gain) loss on investments	(3,890,212)	6,558,531
Capital gifts for facilities and collections	(2,007,100)	—
Gifts to endowment	(149,876)	(399,429)
Changes in assets and liabilities:		
Student accounts receivable	665,495	(52,254)
Other receivables	51,524	(70,192)
Deposits and prepaid expenses	3,336,353	(1,250,718)
Grants and contributions receivable	(824,944)	259,273
Accounts payable	3,075,244	(1,728,968)
Accrued expenses	3,125,329	(901,121)
Refundable deposits and deferred revenue	173,381	261,342
Accrued interest payable	(24,420)	(34,573)
Accrued pension cost	10,261,282	9,180,063
Net cash provided by operating activities	<u>29,693,239</u>	<u>12,660,013</u>
Cash flows from investing activities:		
Proceeds from sale of investments	25,349,266	7,852,030
Purchase of investments	(27,732,753)	(8,646,811)
Principal payments received on mortgage receivable	16,718	15,047
Purchase of land, buildings, and equipment (net of nominal disposals)	(13,285,548)	(9,999,598)
Net cash used in investing activities	<u>(15,652,317)</u>	<u>(10,779,332)</u>
Cash flows from financing activities:		
Proceeds from capital gifts for facilities and collections	2,007,100	—
Proceeds from gifts to endowment	149,876	399,429
Change in construction payable	1,637,765	—
Principal payments on bank note	—	(1,000,000)
Principal payments on long-term debt	(1,385,000)	(1,255,000)
Net cash provided by (used in) financing activities	<u>2,409,741</u>	<u>(1,855,571)</u>
Net increase (decrease) in cash and cash equivalents	16,450,663	25,110
Cash and cash equivalents at beginning of year	<u>2,815,582</u>	<u>2,790,472</u>
Cash and cash equivalents at end of year	\$ <u>19,266,245</u>	<u>2,815,582</u>
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	\$ 2,234,723	2,350,542
Supplementary disclosure of noncash transactions:		
Donated fixed assets and collections	216,580	650,848

See accompanying notes to financial statements.

COLUMBIA COLLEGE CHICAGO

Notes to Financial Statements

August 31, 2003 and 2002

(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.

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Notes to Financial Statements

August 31, 2003 and 2002

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 5% and 7.5% for fiscal years 2003 and 2002) of the average fair 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.

COLUMBIA COLLEGE CHICAGO

Notes to Financial Statements

August 31, 2003 and 2002

(g) Investments

Investments are carried at fair value, which is generally determined based on quoted market prices.

(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) Grants and Contributions Receivable

At August 31, 2003 and 2002, grants and contributions receivable were \$2,888,438 and \$2,063,494, respectively. Of the amount outstanding at August 31, 2003, \$2,724,663 is expected to be collected within one year and \$163,775 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.

COLUMBIA COLLEGE CHICAGO

Notes to Financial Statements

August 31, 2003 and 2002

Principal amounts due under the mortgage receivable at August 31, 2003 are as follows:

2004	\$ 18,016
2005	<u>351,748</u>
	<u>\$ 369,764</u>

Subsequent to August 31, 2003, this note was paid in full.

(5) Investments

Investments at August 31, 2003 and 2002 consisted of the following:

	2003		2002	
	Cost	Fair value	Cost	Fair value
Long-term investments:				
Cash and cash equivalents held				
by investment managers	\$ 1,879,442	1,879,442	3,571,693	3,571,693
Mutual funds – bonds	720,594	764,042	685,690	734,399
Corporate/Government bonds	13,210,734	13,547,604	11,148,416	11,296,831
Corporate – preferred stocks	1,341,204	1,252,614	1,316,084	1,237,154
Corporate – common stocks	<u>32,280,834</u>	<u>33,843,240</u>	<u>34,080,432</u>	<u>29,707,726</u>
Total long-term investments	49,432,808	51,286,942	50,802,315	46,547,803
Bond funds held in trust – funds deposited with trustee for bond fund requirements (note 8)	<u>3,576,068</u>	<u>3,576,068</u>	<u>3,475,786</u>	<u>3,679,273</u>
	<u>\$ 53,008,876</u>	<u>54,863,010</u>	<u>54,278,101</u>	<u>50,227,076</u>

COLUMBIA COLLEGE CHICAGO

Notes to Financial Statements

August 31, 2003 and 2002

(6) Land, Buildings, and Equipment

Land, buildings, and equipment at August 31, 2003 and 2002 consisted of the following:

	2003	2002
Land	\$ 13,411,973	12,641,473
Buildings and improvements	103,240,234	95,009,277
Furnishings and equipment	36,973,661	34,429,463
Library books	6,428,572	5,865,910
Museum collection	6,337,707	6,055,806
Construction-in-process	2,753,029	1,641,118
	169,145,176	155,643,047
Less accumulated depreciation	59,775,083	52,449,436
	\$ 109,370,093	103,193,611

The College acquired one property during fiscal year 2003. In August 2003, the College acquired the property located at 619 South Wabash in Chicago, Illinois for a cash payment in the amount of \$1,175,336.

(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) (4% at August 31, 2003) plus 75 basis points for interest period of 30, 60, or 90 days, at the College's option. As of August 31, 2003, the College had not borrowed against the line of credit.

(8) Long-term Debt

Long-term debt at August 31, 2003 and 2002 is as follows:

	2003	2002
IEFA first mortgage notes:		
1992 Series issued June 1, 1992	\$ 7,030,000	7,795,000
1993 Series issued March 9, 1993	7,505,000	7,780,000
1998 Series issued February 11, 1998	21,210,000	21,555,000
2000 Series issued April 1, 2000	17,100,000	17,100,000
Land trust note issued April 30, 1993	500,000	500,000
	\$ 53,345,000	54,730,000

COLUMBIA COLLEGE CHICAGO

Notes to Financial Statements

August 31, 2003 and 2002

Maturities of long-term debt outstanding at August 31, 2003 are as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>	<u>Total</u>
IEFA notes:							
1992 Series	\$ 810,000	860,000	275,000	290,000	310,000	4,485,000	7,030,000
1993 Series	290,000	310,000	325,000	345,000	365,000	5,870,000	7,505,000
1998 Series	355,000	370,000	1,025,000	1,075,000	1,130,000	17,255,000	21,210,000
2000 Series	—	—	—	—	—	17,100,000	17,100,000
Land trust note	—	—	—	—	—	500,000	500,000
	<u>\$ 1,455,000</u>	<u>1,540,000</u>	<u>1,625,000</u>	<u>1,710,000</u>	<u>1,805,000</u>	<u>45,210,000</u>	<u>53,345,000</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.

Included in long-term debt is \$17,100,000 of general obligation demand bonds, maturing on June 30, 2030. In the event that the agent is unable to remarket the bonds, the bonds become a demand note under an irrevocable letter of credit issued by Harris Trust and Savings Bank. 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% at August 31, 2003) in effect at the time of use. The reimbursement agreement and LOC are for a three year term and are renewable annually. As of August 31, 2003, no amounts have been drawn on the letter of credit. The letter of credit is valid through April 30, 2004. Should the irrevocable letter of credit not be renewed, an alternative credit facility must be obtained or the bonds require immediate repayment.

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 \$6.2 million at August 31, 2003. The note is payable in full on April 30, 2029; interest on the note is 5% payable 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.

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Notes to Financial Statements

August 31, 2003 and 2002

On May 7, 2003 all eligible employees were given notice, as required by section 204(h) of the Employee Retirement Income Security Act of 1974, that the plan was amended to end all benefit accruals effective June 23, 2003, prior to the accumulation of an additional benefit accrual earned for the 2004 calendar year. Therefore, the pension plan was effectively frozen at the amounts determined as of December 31, 2002.

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, 2003 and 2002:

	2003	2002
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 36,503,340	24,483,699
Service cost	2,809,074	1,709,784
Interest cost	2,496,608	1,640,744
Actuarial loss	9,683,532	10,758,124
Benefits paid	(1,675,022)	(2,089,011)
Curtailment	(11,943,560)	—
Benefit obligation at end of year	\$ 37,873,972	36,503,340
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 23,715,758	25,219,670
Actual gain (loss) on plan assets	458,521	(1,948,345)
Employer contributions	—	2,533,444
Benefits paid	(1,675,022)	(2,089,011)
Fair value of plan assets at end of year	\$ 22,499,257	23,715,758
	2003	2002
Funded status	\$ (15,374,715)	(12,787,582)
Unrecognized prior service cost	—	318,818
Unrecognized net actuarial loss	14,166,761	15,925,839
Unrecognized transition amount being recognized over 21 years	(63,954)	(76,745)
Net amount recognized in the balance sheet	\$ (1,271,908)	3,380,330
Amounts recognized in the balance sheet consist of:		
Prepaid (accrued) benefit cost	\$ (1,271,908)	3,380,330
Accrued benefit liability	(14,102,807)	(7,239,460)
Intangible asset	—	318,818
Minimum pension liability	14,102,807	6,920,642
Net amount recognized	\$ (1,271,908)	3,380,330

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Notes to Financial Statements

August 31, 2003 and 2002

Net periodic pension cost for the plan for the fiscal years ended August 31, 2003 and 2002 included the following components:

	<u>2003</u>	<u>2002</u>
Service cost	\$ 2,809,074	1,709,784
Interest cost on projected benefit obligation	2,496,608	1,640,744
Expected return on plan assets	(1,715,869)	(1,908,141)
Net amortization and deferral	826,831	70,433
Curtailements	235,594	—
Net periodic pension cost	<u>\$ 4,652,238</u>	<u>1,512,820</u>

Discount rates of 6% and 7% were used in determining the actuarial present value of the projected benefit obligations for fiscal years 2003 and 2002, respectively. The expected long-term rate of return on assets was 7.5% for fiscal years 2003 and 2002. The projected salary increase to normal retirement age for all employees for fiscal years 2003 and 2002 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.

On May 7, 2003 all eligible employees were given notice, as required by section 204(h) of the Employee Retirement Income Security Act of 1974, that the plan was amended to end all benefit accruals effective June 23, 2003, prior to the accumulation of an additional benefit accrual earned for the 2004 calendar year. Therefore, the retirement plan was effectively frozen at the amounts determined as of December 31, 2002.

COLUMBIA COLLEGE CHICAGO

Notes to Financial Statements

August 31, 2003 and 2002

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, 2003 and 2002:

	2003	2002
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 10,294,780	8,610,700
Service cost	545,391	482,068
Interest cost	710,203	590,409
Actuarial loss	2,174,200	964,177
Benefits paid	(298,051)	(352,574)
Curtailement	(2,315,712)	—
Benefit obligation at end of year	\$ 11,110,811	10,294,780
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 6,574,802	6,904,684
Actual gain (loss) on plan assets	130,115	(679,663)
Employer contributions	—	702,355
Benefits paid	(298,051)	(352,574)
Fair value of plan assets at end of year	\$ 6,406,866	6,574,802
Funded status	\$ (4,703,945)	(3,719,978)
Unrecognized prior service cost	—	103,896
Unrecognized net actuarial loss	3,191,949	3,109,950
Net amount recognized in the balance sheet	\$ (1,511,996)	(506,132)
Amounts recognized in the balance sheet consist of:		
Accrued benefit cost	\$ (1,511,996)	(506,132)
Accrued benefit liability	(3,191,949)	(2,071,786)
Intangible asset	—	103,896
Minimum pension liability	3,191,949	1,967,890
Net amount recognized	\$ (1,511,996)	(506,132)

Net periodic pension cost for the plan for the fiscal years ended August 31, 2003 and 2002 included the following components:

	2003	2002
Service cost	\$ 545,391	482,068
Interest cost on projected benefit obligation	710,203	590,409
Expected return on plan assets	(481,933)	(530,968)
Net amortization and deferral	145,625	29,663
Curtailments	86,578	—
Net periodic pension cost	\$ 1,005,864	571,172

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Notes to Financial Statements

August 31, 2003 and 2002

Discount rates of 6% and 7% were used in determining the actuarial present value of the projected benefit obligations for fiscal years 2003 and 2002, respectively. The expected long-term rate of return on assets was 7.5% for fiscal years 2003 and 2002. The projected salary increase to normal retirement age for all employees for fiscal years 2003 and 2002 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. 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.

(c) ***Columbia College Employees' Retirement Trust***

Effective January 1, 2003, the College has a new defined contribution plan, the Columbia College Chicago Employees' Retirement Plan (the Plan). The Columbia College Chicago Employees' Retirement Trust has been established to implement the Plan.

An employee who was a participant in the Columbia College Pension Plan or the Columbia College Retirement Plan on December 31, 2002 is an automatic participant in the Plan effective January 1, 2003. All other faculty and staff shall become a participant in the Plan on the January 1st or July 1st immediately following the date they satisfy each of the following requirements: (i). The employee has completed one year of service; (ii). The employee has attained the age of 21; and (iii) The employee has not been designated by the College as an "Artist-in-Residence" or "Lecturer."

The College makes an annual contribution to the Plan in an amount determined as follows: (i) For the 2003, 2004, and 2005 Plan years, the employer contribution to the Plan shall be in an amount equal to at least 7.25% of total compensation; and (ii) For all Plan years, beginning after December 31, 2005, the employer contribution to the Plan shall be in an amount determined annually by the Board of Trustees of the College.

The amount contributed annually by the College to the trust will be distributed to eligible employees based on years of service and age. No participant contributions are necessary to receive the employer contributions.

The College has accrued approximately \$2 million in employer contributions for the year ended August 31, 2003.

COLUMBIA COLLEGE CHICAGO

Notes to Financial Statements

August 31, 2003 and 2002

(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:

2004	\$	747,400
2005		624,100
2006		75,000
2007		75,000
2008		75,000
Thereafter		<u>4,100,000</u>
	\$	<u><u>5,696,500</u></u>

Property and equipment rental expense was approximately \$1,789,000 and \$1,203,000 for fiscal years 2003 and 2002, respectively.

At August 31, 2003, future minimum rental income for space leased to others is as follows:

2004	\$	471,000
2005		375,000
2006		242,000
2007		222,000
2008		200,000
Thereafter		<u>200,000</u>
	\$	<u><u>1,710,000</u></u>

(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.

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Notes to Financial Statements

August 31, 2003 and 2002

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, 2003 and 2002 consisted of the following:

	<u>2003</u>	<u>2002</u>
Gifts and other unexpended resources available for:		
Academic programs	\$ 8,172,928	6,550,929
Scholarships and fellowships	4,486,181	4,333,646
Student services	200,062	538,230
Community programs	<u>1,473,900</u>	<u>1,903,625</u>
Total temporarily restricted net assets	<u>\$ 14,333,071</u>	<u>13,326,430</u>

Permanently restricted net assets consist of endowment funds at August 31, 2003 and 2002. 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, 2003 and 2002

(12) Expenses by Functional Classifications

The following is a summary of total expenses classified by function for fiscal years 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Education and general:		
Instruction	\$ 73,022,816	63,557,418
Research	3,887,089	3,605,731
Public service	7,124,282	6,001,072
Library and other academic support	11,106,790	9,768,986
Student services	14,534,633	11,614,561
Institutional support	6,558,730	6,445,878
Auxiliary enterprises	5,112,172	4,685,980
Fundraising	2,325,046	2,209,514
	<u>\$ 123,671,558</u>	<u>107,889,140</u>

(13) Subsequent Event

Subsequent to August 31, 2003, the College obtained a \$23,015,000 loan from the Illinois Educational Facilities Authority from its issuance of Revenue Bonds, Columbia College Chicago, Series 2003. The Series 2003 Bonds are being issued to finance (i) the current refunding of all of the series 1993 Bonds, (ii) certain capital expenditures and proposed property acquisition, (iii) the deposit into the Debt Service Reserve Fund, and (iv) certain costs of issuance of the Series 2003 Bonds. Interest rates range between 2.00% and 5.25%. Interest payments are due June 1 and December 1 of each year, commencing on June 1, 2004.