

COLUMBIA COLLEGE CHICAGO

Financial Statements

August 31, 2004 and 2003

(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, 2004 and 2003, 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, 2004 and 2003, 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

January 27, 2005

COLUMBIA COLLEGE CHICAGO

Balance Sheets

August 31, 2004 and 2003

Assets	2004	2003
Cash and cash equivalents	\$ 22,318,476	19,266,245
Student accounts receivable, less allowance of \$4,463,000 in 2004 and \$3,386,000 in 2003	1,537,277	1,231,468
Other accounts and interest receivable, net	153,894	223,210
Deposits and prepaid expenses	1,455,013	885,514
Grants and contributions receivable, net (note 3)	2,261,912	2,888,438
Mortgage receivable (note 4)	—	369,764
Investments (note 5)	60,396,865	51,286,942
Bond funds held in trust (note 5)	16,666,370	3,576,068
Unamortized bond issue costs	2,307,336	1,660,954
Land, buildings, and equipment, less accumulated depreciation (note 6)	113,250,802	109,370,093
Total assets	\$ 220,347,945	190,758,696
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 7,540,512	7,331,188
Accrued expenses	5,862,241	6,508,650
Refundable deposits and deferred revenue	1,647,100	3,838,663
Accrued interest payable	647,786	509,456
Accrued pension cost (note 9)	13,597,621	20,078,660
Long-term debt (note 8)	68,425,604	53,345,000
Total liabilities	97,720,864	91,611,617
Commitments and contingencies (note 10)		
Net assets:		
Unrestricted	105,138,150	83,454,400
Temporarily restricted (note 11)	15,865,867	14,333,071
Permanently restricted (note 11)	1,623,064	1,359,608
Total net assets	122,627,081	99,147,079
Total liabilities and net assets	\$ 220,347,945	190,758,696

See accompanying notes to financial statements.

COLUMBIA COLLEGE CHICAGO

Statements of Activities

Years ended August 31, 2004 and 2003

	2004				2003			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:								
Revenue:								
Tuition and fees, net of \$3,508,821 and \$2,689,251 in tuition allowances	\$ 130,861,576	—	—	130,861,576	119,146,115	—	—	119,146,115
Residence center, net of \$158,930 and \$162,068 in room allowances	3,383,206	—	—	3,383,206	3,081,465	—	—	3,081,465
Sales and services	1,227,406	54,324	—	1,281,730	1,125,617	25,966	—	1,151,583
Private gifts and grants	579,712	270,155	39,290	889,157	994,551	395,811	94,650	1,485,012
Contracts and sponsored activities	1,761,655	6,435,480	7,000	8,204,135	1,587,254	5,093,285	55,226	6,735,765
State appropriations	—	—	—	—	1,502,736	—	—	1,502,736
Interest and dividends	453,021	762,540	—	1,215,561	584,154	614,643	—	1,198,797
Other	438,901	—	—	438,901	363,965	—	—	363,965
Net assets released from restrictions	5,684,719	(5,684,719)	—	—	5,210,882	(5,210,882)	—	—
Total operating revenue	<u>144,390,196</u>	<u>1,837,780</u>	<u>46,290</u>	<u>146,274,266</u>	<u>133,596,739</u>	<u>918,823</u>	<u>149,876</u>	<u>134,665,438</u>
Expenses:								
Salaries and wages	66,974,100	—	—	66,974,100	61,965,123	—	—	61,965,123
Employee benefits	17,750,268	—	—	17,750,268	18,288,288	—	—	18,288,288
Supplies and services	23,419,831	—	—	23,419,831	23,051,014	—	—	23,051,014
Operation and maintenance of plant	10,550,499	—	—	10,550,499	10,729,156	—	—	10,729,156
Interest	2,708,418	—	—	2,708,418	2,221,762	—	—	2,221,762
Depreciation and amortization	8,007,783	—	—	8,007,783	7,416,215	—	—	7,416,215
Total operating expenses	<u>129,410,899</u>	<u>—</u>	<u>—</u>	<u>129,410,899</u>	<u>123,671,558</u>	<u>—</u>	<u>—</u>	<u>123,671,558</u>
Operating revenue in excess of expenses	14,979,297	1,837,780	46,290	16,863,367	9,925,181	918,823	149,876	10,993,880
Nonoperating activities:								
Net realized gain (loss) on sale of investments	578,571	—	—	578,571	(2,014,947)	—	—	(2,014,947)
Net unrealized gain on investments	2,779,727	—	—	2,779,727	5,905,159	—	—	5,905,159
Capital gifts for facilities and collections	205,575	—	—	205,575	223,680	2,000,000	—	2,223,680
Loss on property value and disposal of equipment	(515,275)	—	—	(515,275)	—	—	—	—
Loss on extinguishment of debt	(457,918)	—	—	(457,918)	—	—	—	—
Net assets released from restrictions	87,818	(87,818)	—	—	1,912,182	(1,912,182)	—	—
Increase in net assets before additional minimum pension liability adjustment	17,657,795	1,749,962	46,290	19,454,047	15,951,255	1,006,641	149,876	17,107,772
Change in donor designation	—	(217,166)	217,166	—	—	—	—	—
Additional minimum pension liability adjustment (note 9)	4,025,955	—	—	4,025,955	(8,406,224)	—	—	(8,406,224)
Changes in net assets	21,683,750	1,532,796	263,456	23,480,002	7,545,031	1,006,641	149,876	8,701,548
Net assets at beginning of year	83,454,400	14,333,071	1,359,608	99,147,079	75,909,369	13,326,430	1,209,732	90,445,531
Net assets at end of year	<u>\$ 105,138,150</u>	<u>15,865,867</u>	<u>1,623,064</u>	<u>122,627,081</u>	<u>83,454,400</u>	<u>14,333,071</u>	<u>1,359,608</u>	<u>99,147,079</u>

See accompanying notes to financial statements.

COLUMBIA COLLEGE CHICAGO

Statements of Cash Flows

Years ended August 31, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Change in net assets	\$ 23,480,002	8,701,548
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of plant and equipment	7,920,896	7,325,646
Amortization of bond issue costs	86,887	90,569
Donation of fixed assets and collections	(204,035)	(216,580)
Capital gifts for facilities and collections	(1,540)	(2,007,100)
Net gain on investments	(3,358,298)	(3,890,212)
Loss on disposal of fixed assets	515,275	—
Loss on extinguished debt	457,918	—
Gifts to endowment	(46,290)	(149,876)
Changes in assets and liabilities:		
Student accounts receivable	(305,809)	665,495
Other receivables	69,316	51,524
Deposits and prepaid expenses	(569,499)	3,336,353
Grants and contributions receivable	626,526	(824,944)
Accounts payable	(688,627)	3,075,244
Accrued expenses	(646,409)	3,125,329
Refundable deposits and deferred revenue	(2,191,563)	173,381
Accrued interest payable	138,330	(24,420)
Accrued pension cost	(6,481,039)	10,261,282
Net cash provided by operating activities	18,802,041	29,693,239
Cash flows from investing activities:		
Proceeds from sale of investments	16,622,515	25,349,266
Purchase of investments	(35,464,442)	(27,732,753)
Principal payments received on mortgage receivable	369,764	16,718
Purchase of land, buildings, and equipment (net of nominal disposals)	(12,316,880)	(13,285,548)
Net cash used in investing activities	(30,789,043)	(15,652,317)
Cash flows from financing activities:		
Proceeds from capital gifts for facilities and collections	205,575	2,007,100
Proceeds from gifts to endowment	46,290	149,876
Change in construction payable	897,951	1,637,765
Proceeds from sale of bonds	23,015,000	—
Payment of bond issue costs	(1,191,187)	—
Bond reoffering premium	735,604	—
Principal payments on long-term debt	(8,670,000)	(1,385,000)
Net cash provided by financing activities	15,039,233	2,409,741
Net increase in cash and cash equivalents	3,052,231	16,450,663
Cash and cash equivalents at beginning of year	19,266,245	2,815,582
Cash and cash equivalents at end of year	\$ 22,318,476	19,266,245
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	\$ 2,570,556	2,234,723
Supplementary disclosure of noncash transactions:		
Donated fixed assets and collections	\$ 205,575	216,580

See accompanying notes to financial statements.

COLUMBIA COLLEGE CHICAGO

Notes to Financial Statements

August 31, 2004 and 2003

(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, 2004 and 2003

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 tuition and fees is reported in the year in which the educational programs are predominately conducted.

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 2004 and 2003) 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 an original maturity of three months or less.

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Notes to Financial Statements

August 31, 2004 and 2003

(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

Long-lived assets, such as buildings and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(i) Collections

In 1997, the College capitalized its collections retroactively in conformity with Financial Accounting Standard Board Statement No. 116, *Accounting for Contributions Received and Contributions Made*. To the extent reliable records the College capitalized items acquired prior to 1997 at their cost at the date of purchase or, if the items were contributed, at their fair or appraised value at the accession date (the date the item was accepted by the College). Other items, particularly those acquired prior to 1997, when detailed curatorial records began to be maintained, have been capitalized at their appraised or estimated current market value. In some cases, collection items held solely for their potential educational value or historical significance were determined to have no alternative use and were not assigned values for the purpose of capitalization.

(j) 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.

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Notes to Financial Statements

August 31, 2004 and 2003

(k) 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, 2004 and 2003, grants and contributions receivable were \$2,261,912 and \$2,888,438, respectively. Of the amount outstanding at August 31, 2004, \$1,769,861 is expected to be collected within one year and \$492,051 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 was payable in monthly installments of \$4,224 including interest at 9% per annum. On December 5, 2003 the note was paid in full.

(5) Investments

Investments at August 31, 2004 and 2003 consisted of the following:

	<u>2004</u>		<u>2003</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	\$ 2,303,596	2,675,958	1,879,442	1,879,442
Mutual funds – bonds	758,595	811,545	720,594	764,042
Corporate/government bonds	17,236,686	17,461,009	13,210,734	13,547,604
Corporate – preferred stocks	1,078,597	1,105,352	1,341,204	1,252,614
Corporate – common stocks	34,227,750	38,343,001	32,280,834	33,843,240
Total long-term investments	55,605,224	60,396,865	49,432,808	51,286,942
Bond funds held in trust – funds deposited with trustee for bond fund requirements (note 8)	16,666,370	16,666,370	3,576,068	3,576,068
	<u>\$ 72,271,594</u>	<u>77,063,235</u>	<u>53,008,876</u>	<u>54,863,010</u>

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Notes to Financial Statements

August 31, 2004 and 2003

(6) Land, Buildings, and Equipment

Land, buildings, and equipment at August 31, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Land	\$ 13,411,973	13,411,973
Buildings and improvements	110,838,765	103,240,234
Furnishings and equipment	42,994,142	36,973,661
Library books	6,935,992	6,428,572
Museum collection	6,630,842	6,337,707
Construction-in-process	—	2,753,029
	<u>180,811,714</u>	<u>169,145,176</u>
Less accumulated depreciation	<u>67,560,912</u>	<u>59,775,083</u>
	<u>\$ 113,250,802</u>	<u>109,370,093</u>

(7) Note Payable to Bank

The College maintained 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) (1.67% at August 31, 2004) plus 75 basis points for interest period of 30, 60, or 90 days, at the College's option. As of August 31, 2004, the College had not borrowed against the line of credit. The revolving line of credit agreement expired during fiscal year 2004 and was not renewed.

(8) Long-term Debt

Long-term debt at August 31, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
IFA first mortgage notes:		
1992 Series issued June 1, 1992	\$ 6,220,000	7,030,000
1993 Series issued March 9, 1993	—	7,505,000
1998 Series issued February 11, 1998	20,855,000	21,210,000
2000 Series issued April 1, 2000	17,100,000	17,100,000
2003 Series issued October 15, 2003	23,015,000	—
Land trust note issued April 30, 1993	<u>500,000</u>	<u>500,000</u>
	67,690,000	53,345,000
2003 Series reoffering premium	<u>735,604</u>	—
	<u>\$ 68,425,604</u>	<u>53,345,000</u>

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Notes to Financial Statements

August 31, 2004 and 2003

Maturities of long-term debt outstanding at August 31, 2004 are as follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>	<u>Total</u>
IEFA notes:							
1992 Series	\$ 860,000	275,000	290,000	310,000	330,000	4,155,000	6,220,000
1998 Series	370,000	1,025,000	1,075,000	1,130,000	1,185,000	16,070,000	20,855,000
2000 Series	—	—	—	—	—	17,100,000	17,100,000
2003 Series	385,000	395,000	405,000	840,000	870,000	20,120,000	23,015,000
Land trust note	—	—	—	—	—	500,000	500,000
	<u>\$ 1,615,000</u>	<u>1,695,000</u>	<u>1,770,000</u>	<u>2,280,000</u>	<u>2,385,000</u>	<u>57,945,000</u>	<u>67,690,000</u>

All first mortgage notes were issued by Illinois Finance Authority (IFA) 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, 1998, and 2003 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 (4.5% at August 31, 2004) 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, 2004, no amounts have been drawn on the letter of credit. The letter of credit is valid through April 10, 2007. Should the irrevocable letter of credit not be renewed, an alternative credit facility must be obtained or the bonds require immediate repayment.

The irrevocable letter of credit is subject to certain financial covenants, the most restrictive of which include net asset ratio restrictions, cash and investment restrictions, and a debt service limitation. All debt covenants were met or waived as of August 31, 2004.

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 \$8,212,000 million at August 31, 2004. The note is payable in full on April 30, 2029; interest on the note is 5% payable annually.

The carrying value of debt approximates its fair market value.

(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, 2004 and 2003

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 2003 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, 2004 and 2003, as determined at the measurement dates of June 30, 2004 and 2003:

	2004	2003
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 37,873,972	36,503,340
Service cost	—	2,809,074
Interest cost	2,331,940	2,496,608
Actuarial (gain) loss	(2,130,676)	9,683,532
Benefits paid	(1,125,879)	(1,675,022)
Curtailment	—	(11,943,560)
Benefit obligation at end of year	\$ 36,949,357	37,873,972
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 22,499,257	23,715,758
Actual gain on plan assets	2,810,281	458,521
Employer contributions	2,754,302	—
Benefits paid	(1,125,879)	(1,675,022)
Fair value of plan assets at end of year	\$ 26,937,961	22,499,257
Funded status	\$ (10,011,396)	(15,374,715)
Unrecognized net actuarial loss	10,282,356	14,166,761
Unrecognized transition amount being recognized over 21 years	(51,163)	(63,954)
Net amount recognized in the balance sheet	\$ 219,797	(1,271,908)
Amounts recognized in the balance sheet consist of:		
Prepaid (accrued) benefit cost	\$ 219,797	(1,271,908)
Accrued benefit liability	(10,231,193)	(14,102,807)
Minimum pension liability	10,231,193	14,102,807
Net amount recognized	\$ 219,797	(1,271,908)

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Notes to Financial Statements

August 31, 2004 and 2003

The accumulated benefit obligation for the plan was \$36,949,357 and \$37,873,972 at August 31, 2004 and 2003, respectively.

At August 31, 2003, the accumulated benefit obligation for the defined benefit pension plan exceeded the plan's assets, thus creating an unfunded accumulated benefit obligation. This situation required the recording of a minimum pension liability adjustment of \$14,102,807 at August 31, 2003, which is reported as a nonoperating change in unrestricted net assets in the consolidated statement of activities in fiscal 2003. At August 31, 2004, the accumulated benefit obligation exceeds plan assets by \$10,231,193. This situation required a reversal of \$3,871,614 of the minimum pension liability adjustment recorded in fiscal 2003, which is reported as a nonoperating change in unrestricted net assets in the consolidated statement of activities in fiscal 2004.

Net periodic pension cost for the plan for the fiscal years ended August 31, 2004 and 2003 included the following components:

	<u>2004</u>	<u>2003</u>
Service cost	\$ —	2,809,074
Interest cost on projected benefit obligation	2,331,940	2,496,608
Expected return on plan assets	(1,748,510)	(1,715,869)
Net amortization and deferral	679,167	826,831
Curtailments	—	235,594
Net periodic pension cost	<u>\$ 1,262,597</u>	<u>4,652,238</u>

Discount rate of 6.25% was used in determining the actuarial present value of the projected benefit obligations for fiscal years 2004 and 2003, respectively. The expected long-term rate of return on assets was 7.5% for fiscal years 2004 and 2003. The projected salary increase to normal retirement age for all employees for fiscal years 2004 and 2003 was 0%.

Weighted-average asset allocation by asset category is as follows:

	<u>Defined benefit pension plan</u>	
	<u>2004</u>	<u>2003</u>
Domestic public equities	50%	51%
International public equities	7	7
Fixed income	38	38
Cash	5	4
	<u>100%</u>	<u>100%</u>

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Plan assets for the defined benefit pension plan are managed through the Smith Barney Corporate Trust. The target asset allocation of 50% domestic public equities, 7% international public equities, 38% fixed income securities, and 5% cash is meant to result in a favorable long-term rate of return from a diversified portfolio of equity and fixed income investments.

The College expects to make a contribution of \$2,000,000 to the plan during fiscal year 2005.

The following benefit payments, which reflect expected future service, are expected to be paid for each of the fiscal years ending August 31:

<u>Fiscal year</u>		<u>Defined benefit pension plan</u>
2005	\$	427,000
2006		573,000
2007		686,000
2008		746,000
2009		913,000
2010-2014		8,182,000

(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 2003 calendar year. Therefore, the retirement plan was effectively frozen at the amounts determined as of December 31, 2002.

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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, 2004 and 2003 as determined at the June 30, 2004 and 2003 measurement dates:

	<u>2004</u>	<u>2003</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 11,110,811	10,294,780
Service cost	—	545,391
Interest cost	645,140	710,203
Actuarial loss	150,126	2,174,200
Benefits paid	(1,577,132)	(298,051)
Curtailment	—	(2,315,712)
Benefit obligation at end of year	\$ <u>10,328,945</u>	<u>11,110,811</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 6,406,866	6,574,802
Actuarial gain on plan assets	635,038	130,115
Employer contributions	1,277,948	—
Benefits paid	(1,577,132)	(298,051)
Fair value of plan assets at end of year	\$ <u>6,742,720</u>	<u>6,406,866</u>
Funded status	\$ (3,586,225)	(4,703,945)
Unrecognized net actuarial loss	<u>3,037,608</u>	<u>3,191,949</u>
Net amount recognized in the balance sheet	\$ <u>(548,617)</u>	<u>(1,511,996)</u>
Amounts recognized in the balance sheet consist of:		
Accrued benefit cost	\$ (548,617)	(1,511,996)
Accrued benefit liability	(3,037,608)	(3,191,949)
Minimum pension liability	<u>3,037,608</u>	<u>3,191,949</u>
Net amount recognized	\$ <u>(548,617)</u>	<u>(1,511,996)</u>

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The accumulated benefit obligation for the plan was \$10,328,945 and \$11,110,811 at August 31, 2004 and 2003, respectively.

At August 31, 2003, the accumulated benefit obligation for the defined benefit pension plan exceeded the plan's assets, thus creating an unfunded accumulated benefit obligation. This situation required the recording of a minimum pension liability adjustment of \$3,191,949 at August 31, 2003, which is reported as a nonoperating change in unrestricted net assets in the consolidated statement of activities in fiscal 2003. At August 31, 2004, the accumulated benefit obligation exceeds plan assets by \$3,037,608. This situation required a reversal of \$154,341 which is reported as a nonoperating change in unrestricted net assets in the consolidated statement of activities in fiscal 2004.

Net periodic pension cost for the plan for the fiscal years ended August 31, 2004 and 2003 included the following components:

	<u>2004</u>	<u>2003</u>
Service cost	\$ —	545,391
Interest cost on projected benefit obligation	645,140	710,203
Expected return on plan assets	(469,296)	(481,933)
Net amortization and deferral	138,725	145,625
Curtailements	—	86,578
Net periodic pension cost	<u>\$ 314,569</u>	<u>1,005,864</u>

Discount rate of 6.25% was used in determining the actuarial present value of the projected benefit obligations for fiscal years 2004 and 2003, respectively. The expected long-term rate of return on assets was 7.5% for fiscal years 2004 and 2003. The projected salary increase to normal retirement age for all employees for fiscal years 2004 and 2003 was 0%.

Weighted-average asset allocations by asset category are as follows:

	<u>Defined benefit pension plan</u>	
	<u>2004</u>	<u>2003</u>
Domestic public equities	50%	51%
International public equities	7	7
Fixed income	38	38
Cash	5	4
	<u>100%</u>	<u>100%</u>

Plan assets for the defined benefit pension plan are managed through the Smith Barney Corporate Trust. The target asset allocation of 50% domestic public equities, 7% international public equities, 38% fixed income securities, and 5% cash is meant to result in a favorable long-term rate of return from a diversified portfolio of equity and fixed income investments.

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The College expects to make a contribution of \$552,000 to the plan during fiscal year 2005.

The following benefit payments, which reflect expected future service, are expected to be paid for each of the fiscal years ending August 31:

<u>Fiscal year</u>	<u>Defined benefit pension plan</u>
2005	\$ 339,000
2006	411,000
2007	470,000
2008	536,000
2009	649,000
2010-2014	4,464,000

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.

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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 made contributions to participant accounts of \$3,138,679 during fiscal year 2004.

The College has accrued \$2,060,000 in employer contributions for the year ended August 31, 2004.

(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, and for certain auxiliary building space leases at other locations. Minimum lease payments payable in future years are as follows:

2005	\$	9,678,000
2006		194,000
2007		194,000
2008		194,000
2009		174,000
Thereafter		<u>4,025,000</u>
	\$	<u><u>14,459,000</u></u>

Property and equipment rental expense was approximately \$1,554,000 and \$1,789,000 for fiscal years 2004 and 2003, respectively.

At August 31, 2004, future minimum rental income for space leased to others is as follows:

2005	\$	375,000
2006		242,000
2007		222,000
2008		200,000
2009		<u>200,000</u>
	\$	<u><u>1,239,000</u></u>

(b) *University Center of Chicago*

On May 30, 2002, Columbia 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 student residence, known as University Center of Chicago (UCC). The facility, opened in August 2004, houses more than 1,700 students and live-in staff near the University's downtown campus. The schools formed a not-for-profit corporation called Education Advancement Fund, Inc. (EAF) to develop, operate, and own UCC. Columbia is a 40.625% member of the EAF. Columbia agreed to guarantee EAF a maximum of \$9,750,000 in rent for Columbia's proportionate interest in the premises for a one-year period commencing August 1, 2004. Columbia will pay EAF approximately \$6,028,000 (including approximately \$1,493,000 for Columbia's share of the residential life and meal plan expenses)

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towards its maximum rental liability in connection with its lease of 682 beds in fiscal year 2005. This lease obligation is reflected in the future minimum lease payments above. Subsequent to fiscal year 2005, Columbia has the option, but not the obligation, to continue to enter into a Dormitory Usage Commitment for beds on a year-to-year basis. Such a commitment will result in a one-year unconditional obligation to pay the room rate for each of the beds and the cost of a residential life program in proportion to the commitment. The real estate company of a College board member has contracted with EAF to manage UCC.

(c) 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.

(11) Restrictions and Limitations on Net Asset Balances

Temporarily restricted net assets at August 31, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Gifts and other unexpended resources available for:		
Academic programs	\$ 8,305,048	8,172,928
Scholarships and fellowships	5,338,800	4,486,181
Student services	146,374	200,062
Community programs	<u>2,075,645</u>	<u>1,473,900</u>
Total temporarily restricted net assets	<u>\$ 15,865,867</u>	<u>14,333,071</u>

Permanently restricted net assets consist of endowment funds at August 31, 2004 and 2003. 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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August 31, 2004 and 2003

(12) Expenses by Functional Classifications

The following is a summary of total expenses classified by function for fiscal years 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Education and general:		
Instruction	\$ 75,662,899	73,022,816
Research	3,944,726	3,887,089
Public service	7,813,700	7,124,282
Library and other academic support	10,868,981	11,106,790
Student services	16,489,621	14,534,633
Institutional support	9,416,054	6,558,730
Auxiliary enterprises	2,467,210	5,112,172
Fundraising	2,747,708	2,325,046
	<u>\$ 129,410,899</u>	<u>123,671,558</u>

(13) Subsequent Event

Subsequent to August 31, 2004, the College obtained a \$5,495,000 loan from the Illinois Finance Authority from its issuance of Revenue Refunding Bonds, Columbia College Chicago, Series 2004. The Series 2004 Bonds are being issued to finance (i) the current refunding of all of the Series 1992, maturing after December 1, 2004, and (ii) certain costs of issuance of the Series 2004 Bonds. The interest rate is 5.25% and interest payments are due June 1 and December 1 of each year, commencing on December 1, 2004.