

**COLUMBIA COLLEGE CHICAGO**

Financial Statements

August 31, 2005 and 2004

(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, 2005 and 2004, 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 consideration of internal control over financial reporting for the purpose of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005 and 2004, 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**

December 20, 2005

**COLUMBIA COLLEGE CHICAGO**

Balance Sheets

August 31, 2005 and 2004

<b>Assets</b>	<b>2005</b>	<b>2004</b>
Cash and cash equivalents	\$ 29,134,607	19,900,016
Student accounts receivable, less allowance of \$8,134,000 in 2005 and \$4,463,000 in 2004	1,709,266	1,537,277
Other accounts and interest receivable, net	98,945	153,894
Deposits and prepaid expenses	1,312,803	1,455,013
Grants and contributions receivable, net (note 3)	2,663,144	2,261,912
Investments (note 4)	93,836,379	60,396,865
Bond funds held in trust (note 4)	7,723,698	16,666,370
Unamortized bond issue costs	2,376,979	2,307,336
Land, buildings, and equipment, less accumulated depreciation (note 5)	<u>117,550,800</u>	<u>113,250,802</u>
Total assets	<u>\$ 256,406,621</u>	<u>217,929,485</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 5,590,726	5,122,052
Accrued expenses	6,683,221	5,862,241
Refundable deposits and deferred revenue	25,848,967	1,647,100
Accrued interest payable	630,448	647,786
Accrued pension cost (note 7)	17,952,750	13,597,621
Long-term debt (note 6)	<u>68,139,641</u>	<u>68,425,604</u>
Total liabilities	<u>124,845,753</u>	<u>95,302,404</u>
Commitments and contingencies (note 8)		
Net assets:		
Unrestricted	114,189,822	105,138,150
Temporarily restricted (note 9)	15,611,085	15,865,867
Permanently restricted (note 9)	<u>1,759,961</u>	<u>1,623,064</u>
Total net assets	<u>131,560,868</u>	<u>122,627,081</u>
Total liabilities and net assets	<u>\$ 256,406,621</u>	<u>217,929,485</u>

See accompanying notes to financial statements.

**COLUMBIA COLLEGE CHICAGO**

Statements of Activities

Years ended August 31, 2005 and 2004

	2005				2004			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:								
Revenue:								
Tuition and fees, net of \$3,235,092 and \$3,508,821 in tuition allowances	\$ 140,019,053	—	—	140,019,053	130,861,576	—	—	130,861,576
Student housing, net of \$477,113 and \$158,930 in room allowances	11,945,746	—	—	11,945,746	3,383,206	—	—	3,383,206
Sales and services	1,405,673	44,129	—	1,449,802	1,227,406	54,324	—	1,281,730
Private gifts and grants	679,838	79,332	—	759,170	579,712	270,155	—	849,867
Contracts and sponsored activities	1,590,475	4,215,281	—	5,805,756	1,761,655	6,435,480	—	8,197,135
Investment return for operations	3,574,349	836,466	—	4,410,815	2,163,496	762,540	—	2,926,036
Other	344,209	—	—	344,209	438,901	—	—	438,901
Net assets released from restrictions	5,418,440	(5,418,440)	—	—	5,684,719	(5,684,719)	—	—
<b>Total operating revenue</b>	<b>164,977,783</b>	<b>(243,232)</b>	<b>—</b>	<b>164,734,551</b>	<b>146,100,671</b>	<b>1,837,780</b>	<b>—</b>	<b>147,938,451</b>
Expenses:								
Salaries and wages	71,668,296	—	—	71,668,296	66,974,100	—	—	66,974,100
Employee benefits	17,847,266	—	—	17,847,266	17,750,268	—	—	17,750,268
Supplies and services	27,980,108	—	—	27,980,108	23,419,831	—	—	23,419,831
Operation and maintenance of plant	21,587,384	—	—	21,587,384	10,550,499	—	—	10,550,499
Interest	2,839,530	—	—	2,839,530	2,708,418	—	—	2,708,418
Depreciation and amortization	8,466,395	—	—	8,466,395	8,007,783	—	—	8,007,783
<b>Total operating expenses</b>	<b>150,388,979</b>	<b>—</b>	<b>—</b>	<b>150,388,979</b>	<b>129,410,899</b>	<b>—</b>	<b>—</b>	<b>129,410,899</b>
Operating revenue in excess of expenses	14,588,804	(243,232)	—	14,345,572	16,689,772	1,837,780	—	18,527,552
Nonoperating activities:								
Investment return, less amounts for operations	4,901,223	—	—	4,901,223	1,647,823	—	—	1,647,823
Capital gifts for facilities and collections	1,026,973	—	—	1,026,973	205,575	—	—	205,575
Gifts to permanently restricted funds	—	—	125,347	125,347	—	—	46,290	46,290
Gain (loss) on property value and disposal of equipment	20,182	—	—	20,182	(515,275)	—	—	(515,275)
Loss on extinguishment of debt	(215,640)	—	—	(215,640)	(457,918)	—	—	(457,918)
Net assets released from restrictions	—	—	—	—	87,818	(87,818)	—	—
Change in donor designation	—	(11,550)	11,550	—	—	(217,166)	217,166	—
Increase (decrease) in net assets before additional minimum pension liability adjustment	20,321,542	(254,782)	136,897	20,203,657	17,657,795	1,532,796	263,456	19,454,047
Additional minimum pension liability adjustment (note 7)	(11,269,870)	—	—	(11,269,870)	4,025,955	—	—	4,025,955
Changes in net assets	9,051,672	(254,782)	136,897	8,933,787	21,683,750	1,532,796	263,456	23,480,002
Net assets at beginning of year	105,138,150	15,865,867	1,623,064	122,627,081	83,454,400	14,333,071	1,359,608	99,147,079
Net assets at end of year	\$ 114,189,822	15,611,085	1,759,961	131,560,868	105,138,150	15,865,867	1,623,064	122,627,081

See accompanying notes to financial statements.

**COLUMBIA COLLEGE CHICAGO**

Statements of Cash Flows

Years ended August 31, 2005 and 2004

	<b>2005</b>	<b>2004</b>
Cash flows from operating activities:		
Change in net assets	\$ 8,933,787	23,480,002
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of plant and equipment	8,404,582	7,920,896
Amortization of bond issue costs	61,813	86,887
Donation of fixed assets and collections	(1,026,973)	(204,035)
Capital gifts for facilities and collections	—	(1,540)
Net gain on investments	(7,280,914)	(3,358,298)
(Gain) or loss on disposal of fixed assets	(20,182)	515,275
Loss on extinguished debt	215,640	457,918
Gifts to endowment	(125,347)	(46,290)
Changes in assets and liabilities:		
Student accounts receivable	(171,989)	(305,809)
Other accounts and interest receivables	54,949	69,316
Deposits and prepaid expenses	142,210	(569,499)
Grants and contributions receivable	(401,232)	626,526
Accounts payable	306,794	(3,107,087)
Accrued expenses	820,980	(646,409)
Refundable deposits and deferred revenue	24,201,867	(2,191,563)
Accrued interest payable	(17,338)	138,330
Accrued pension cost	4,355,129	(6,481,039)
Net cash provided by operating activities	38,453,776	16,383,581
Cash flows from investing activities:		
Proceeds from sale of investments	11,668,702	16,622,515
Purchase of investments	(29,891,423)	(35,464,442)
Principal payments received on mortgage receivable	—	369,764
Purchase of land, buildings, and equipment (net of nominal disposals)	(9,406,632)	(12,111,305)
Net cash used in investing activities	(27,629,353)	(30,583,468)
Cash flows from financing activities:		
Proceeds from gifts to endowment	125,347	46,290
Change in construction payable	161,880	897,951
Proceeds from sale of bonds	5,495,000	23,015,000
Payment of bond issue costs	(317,828)	(1,191,187)
Payment of bond underwriter discount	(75,344)	—
Bond reoffering premium	209,947	735,604
Principal payments on long-term debt	(7,188,834)	(8,670,000)
Net cash (used in) provided by financing activities	(1,589,832)	14,833,658
Net increase in cash and cash equivalents	9,234,591	633,771
Cash and cash equivalents at beginning of year	19,900,016	19,266,245
Cash and cash equivalents at end of year	\$ 29,134,607	19,900,016
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	\$ 2,834,805	2,570,556
Supplementary disclosure of noncash transactions:		
Donated fixed assets and collections	\$ 1,026,973	205,575

See accompanying notes to financial statements.

# COLUMBIA COLLEGE CHICAGO

## Notes to Financial Statements

August 31, 2005 and 2004

### (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, 2005 and 2004

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. Deferred revenue consists of student tuition, housing, and fees billed and collected for the upcoming fall term.

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% for fiscal years 2005 and 2004) 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) *Cash Equivalents***

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

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2005 and 2004

**(f) Investments**

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

**(g) 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.

**(h) 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 existed, 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 fair 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.

**(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.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2005 and 2004

*(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.

*(k) Reclassifications*

Certain 2004 balances have been reclassified in order to conform with 2005 presentation.

**(3) Grants and Contributions Receivable**

At August 31, 2005 and 2004, grants and contributions receivable were \$2,663,144 and \$2,261,912, respectively. Of the amount outstanding at August 31, 2005, \$2,603,144 is expected to be collected within one year and \$60,000 is expected to be collected within two to five years.

**(4) Investments**

Investments at August 31, 2005 and 2004 consisted of the following:

	<b>2005</b>		<b>2004</b>	
	<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	\$ 4,305,325	4,305,325	2,303,596	2,675,958
Mutual funds – bonds	838,089	836,845	758,595	811,545
Corporate/government bonds	27,672,612	27,155,955	17,236,686	17,461,009
Corporate – preferred stocks	984,559	988,435	1,078,597	1,105,352
Corporate – common stocks	50,734,631	60,549,819	34,227,750	38,343,001
Total long-term investments	84,535,216	93,836,379	55,605,224	60,396,865
Bond funds held in trust – funds deposited with trustee for bond fund requirements (note 6)	7,723,698	7,723,698	16,666,370	16,666,370
	<u>\$ 92,258,914</u>	<u>101,560,077</u>	<u>72,271,594</u>	<u>77,063,235</u>

The components of total investment return from all sources for 2005 and 2004 are reflected below:

	<u><b>2005</b></u>	<u><b>2004</b></u>
Interest income and dividends	\$ 2,031,124	1,215,561
Realized and unrealized gains, net	7,280,914	3,358,298
Total return	<u>\$ 9,312,038</u>	<u>4,573,859</u>

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2005 and 2004

Investment return, as reflected in the statement of activities as of August 31, is as follows:

	<u>2005</u>	<u>2004</u>
Operating:		
Unrestricted	\$ 3,574,349	2,163,496
Temporarily restricted	836,466	762,540
	<u>4,410,815</u>	<u>2,926,036</u>
Non-operating:		
Unrestricted	4,901,223	1,647,823
Total return	\$ <u>9,312,038</u>	<u>4,573,859</u>

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

Land, buildings, and equipment at August 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Land	\$ 13,411,973	13,411,973
Buildings and improvements	116,579,048	110,838,765
Furnishings and equipment	46,055,014	42,994,142
Library collections	7,462,172	6,935,992
Museum and art collections	7,751,431	6,630,842
Construction-in-process	2,042,528	—
	<u>193,302,166</u>	<u>180,811,714</u>
Less accumulated depreciation	75,751,366	67,560,912
	\$ <u>117,550,800</u>	<u>113,250,802</u>

Outstanding commitments for construction contracts amounted to approximately \$2,876,000 as of August 31, 2005.

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Notes to Financial Statements

August 31, 2005 and 2004

**(6) Long-term Debt**

Long-term debt at August 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
IFA first mortgage notes:		
1992 Series issued June 1, 1992	\$ —	6,220,000
1998 Series issued February 11, 1998	20,485,000	20,855,000
2000 Series issued April 1, 2000	17,100,000	17,100,000
2003 Series issued October 15, 2003	22,630,000	23,015,000
2004 Series issued September 7, 2004	5,495,000	—
Land trust note issued April 30, 1993	500,000	500,000
Capital lease obligation	1,030,165	—
	<u>67,240,165</u>	<u>67,690,000</u>
2003 and 2004 Series reoffering premium	899,476	735,604
	<u>\$ 68,139,641</u>	<u>68,425,604</u>

Maturities of long-term debt outstanding at August 31, 2005 are as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Thereafter</u>	<u>Total</u>
IFA notes:							
1998 Series	\$ 1,025,000	1,075,000	1,130,000	1,185,000	1,245,000	14,825,000	20,485,000
2000 Series	—	—	—	—	—	17,100,000	17,100,000
2003 Series	395,000	405,000	840,000	870,000	910,000	19,210,000	22,630,000
2004 Series	305,000	320,000	340,000	360,000	375,000	3,795,000	5,495,000
Land trust note	—	—	—	—	—	500,000	500,000
Capital lease	245,525	260,489	278,867	245,284	—	—	1,030,165
	<u>\$ 1,970,525</u>	<u>2,060,489</u>	<u>2,588,867</u>	<u>2,660,284</u>	<u>2,530,000</u>	<u>55,430,000</u>	<u>67,240,165</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 1998, 2003, and 2004 bond indentures. These funds are maintained in trust by U.S. Bank and are invested in government securities (see note 4). Income earnings from these funds are applied to interest payments.

## COLUMBIA COLLEGE CHICAGO

### Notes to Financial Statements

August 31, 2005 and 2004

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 (6.25% at August 31, 2005) 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, 2005, 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. Management believes that these debt covenants were met or waived as of August 31, 2005.

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 million at August 31, 2005. 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 value.

#### *Capital Leases*

The College has certain lease agreements for copy machines which are considered capital leases. These leases have been capitalized and the College has recorded fixed assets, and a liability to reflect the value of the lease asset and obligation. The balance of the lease obligation was \$1,030,165 and \$0 at August 31, 2005 and 2004, respectively. Future minimum lease payments as of August 31, 2005 are as follows:

	<u>Annual lease payment</u>
Year:	
2006	\$ 535,362
2007	538,432
2008	541,560
2009	<u>453,500</u>
Total	2,068,854
Less imputed interest	<u>(1,038,689)</u>
Present value of lease	<u>\$ 1,030,165</u>

#### (7) **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

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2005 and 2004

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 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, 2005 and 2004, as determined at the measurement dates of June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 36,949,357	37,873,972
Interest cost	2,257,211	2,331,940
Actuarial (gain) loss	9,414,428	(2,130,676)
Benefits paid	<u>(1,767,314)</u>	<u>(1,125,879)</u>
Benefit obligation at end of year	\$ <u>46,853,682</u>	<u>36,949,357</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 26,937,961	22,499,257
Actual gain on plan assets	850,932	2,810,281
Employer contributions	6,247,691	2,754,302
Benefits paid	<u>(1,767,314)</u>	<u>(1,125,879)</u>
Fair value of plan assets at end of year	\$ <u>32,269,270</u>	<u>26,937,961</u>
	<u>2005</u>	<u>2004</u>
Funded status	\$ (14,584,412)	(10,011,396)
Unrecognized net actuarial loss	20,442,952	10,282,356
Unrecognized transition amount being recognized over 21 years	<u>(38,372)</u>	<u>(51,163)</u>
Net amount recognized	\$ <u>5,820,168</u>	<u>219,797</u>
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	\$ 5,820,168	219,797
Additional minimum pension liability	<u>(20,404,580)</u>	<u>(10,231,193)</u>
Net amount recognized in the balance sheet	\$ <u>(14,584,412)</u>	<u>(10,011,396)</u>

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2005 and 2004

The accumulated benefit obligation for the plan was \$46,853,682 and \$36,949,357 at August 31, 2005 and 2004, respectively.

At August 31, 2004, the accumulated benefit obligation exceeds plan assets by \$10,011,396. 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. At August 31, 2005, the accumulated benefit obligation exceeds plan assets by \$14,584,412. This situation required an addition of \$10,173,387 to the minimum pension liability adjustment recorded in fiscal 2004, which is reported as a nonoperating change in unrestricted net assets in the consolidated statement of activities in fiscal 2005.

Net periodic pension cost for the plan for the fiscal years ended August 31, 2005 and 2004 included the following components:

	<u>2005</u>	<u>2004</u>
Interest cost on projected benefit obligation	\$ 2,257,211	2,331,940
Expected return on plan assets	(2,042,471)	(1,748,510)
Net amortization and deferral	<u>525,858</u>	<u>679,167</u>
Net periodic pension cost	<u>\$ 740,598</u>	<u>1,262,597</u>

Discount rate of 5% and 6.25% was used in determining the actuarial present value of the projected benefit obligations for fiscal years 2005 and 2004, respectively. The expected long-term rate of return on assets was 7% and 7.5% for fiscal years 2005 and 2004, respectively, and is based on analysis of historical rates of return. The projected salary increase to normal retirement age for all employees for fiscal years 2005 and 2004 was 0%.

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

	<b>Defined benefit pension plan</b>	
	<u>2005</u>	<u>2004</u>
Domestic public equities	50%	50%
International public equities	7	7
Fixed income	41	38
Cash	<u>2</u>	<u>5</u>
	<u>100%</u>	<u>100%</u>

Plan assets for the defined benefit pension plan are managed through the Smith Barney Citigroup 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 \$1,400,000 to the plan during fiscal year 2006.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2005 and 2004

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>
2006	\$ 727,000
2007	886,000
2008	980,000
2009	1,049,000
2010	1,245,000
2011-2015	9,226,000

**(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.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2005 and 2004

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, 2005 and 2004 as determined at the June 30, 2005 and 2004 measurement dates:

	<u>2005</u>	<u>2004</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 10,328,945	11,110,811
Interest cost	625,578	645,140
Actuarial loss	1,039,574	150,126
Benefits paid	<u>(352,339)</u>	<u>(1,577,132)</u>
Benefit obligation at end of year	\$ <u>11,641,758</u>	<u>10,328,945</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 6,742,720	6,406,866
Actual gain on plan assets	216,037	635,038
Employer contributions	1,667,002	1,277,948
Benefits paid	<u>(352,339)</u>	<u>(1,577,132)</u>
Fair value of plan assets at end of year	\$ <u>8,273,420</u>	<u>6,742,720</u>
Funded status	\$ (3,368,338)	(3,586,225)
Unrecognized net actuarial loss	<u>4,253,175</u>	<u>3,037,608</u>
Net amount recognized	\$ <u>884,837</u>	<u>(548,617)</u>
Amounts recognized in the balance sheet consist of:		
Prepaid (accrued) benefit cost	\$ 884,837	(548,617)
Additional minimum pension liability	<u>(4,253,175)</u>	<u>(3,037,608)</u>
Net amount recognized in the balance sheet	\$ <u>(3,368,338)</u>	<u>(3,586,225)</u>

The accumulated benefit obligation for the plan was \$11,641,758 and \$10,328,945 at August 31, 2005 and 2004, respectively.

At August 31, 2004, the accumulated benefit obligation exceeds plan assets by \$3,586,225. This situation required a reversal of \$154,341 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. At August 31, 2005, the accumulated benefit obligation exceeds plan assets by \$3,368,338. This situation required an addition of \$1,215,567 that is reported as a nonoperating change in unrestricted net assets in the consolidated statement of activities in fiscal 2005.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2005 and 2004

Net periodic pension cost for the plan for the fiscal years ended August 31, 2005 and 2004 included the following components:

	<u>2005</u>	<u>2004</u>
Interest cost on projected benefit obligation	\$ 625,578	645,140
Expected return on plan assets	(518,004)	(469,296)
Net amortization and deferral	<u>151,779</u>	<u>138,725</u>
Net periodic pension cost	\$ <u>259,353</u>	<u>314,569</u>

Discount rate of 5% and 6.25% was used in determining the actuarial present value of the projected benefit obligations for fiscal years 2005 and 2004, respectively. The expected long-term rate of return on assets was 7% and 7.5% for fiscal years 2005 and 2004, respectively, and is based on analysis of historical rates of return. The projected salary increase to normal retirement age for all employees for fiscal years 2005 and 2004 was 0%.

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

	<b>Defined benefit pension plan</b>	
	<u>2005</u>	<u>2004</u>
Domestic public equities	50%	50%
International public equities	7	7
Fixed income	41	38
Cash	<u>2</u>	<u>5</u>
	<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.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2005 and 2004

The College expects to make a contribution of \$280,000 to the plan during fiscal year 2006.

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>
2006	\$ 299,000
2007	342,000
2008	411,000
2009	490,000
2010	622,000
2011-2015	4,084,000

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 Citigroup, 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.

## COLUMBIA COLLEGE CHICAGO

### Notes to Financial Statements

August 31, 2005 and 2004

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 \$3,112,060 and \$3,138,679 during fiscal year 2005 and 2004, respectively.

The College has accrued \$3,231,525 in employer contributions for the year ended August 31, 2005.

#### (8) 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:

2006	\$	12,741,000
2007		1,004,000
2008		1,018,000
2009		995,000
2010		786,000
Thereafter		<u>4,750,000</u>
	\$	<u><u>21,294,000</u></u>

Property and equipment rental expense was approximately \$10,418,000 and \$1,554,000 for fiscal years 2005 and 2004, respectively.

At August 31, 2005, future minimum rental income for space leased to others is as follows:

2006	\$	575,000
2007		351,000
2008		284,000
2009		284,000
2010		<u>56,000</u>
	\$	<u><u>1,550,000</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. This guarantee has expired. For a one-year period commencing August 1, 2005 the membership agreed to guarantee EAF debt service coverage at 1:25 to 1. Should

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2005 and 2004

EAF not be able to meet its debt service coverage ratio Columbia would be responsible for its 40.625% share of the uncovered debt service. Columbia will pay EAF approximately \$9,597,000 (including approximately \$2,135,000 for Columbia's share of the residential life and meal plan expenses) towards its maximum rental liability in connection with its lease of 682 beds in fiscal year 2006. This lease obligation is reflected in the future minimum lease payments above. Subsequent to fiscal year 2006, 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.

As noted above, EAF is a 501(c)(3) corporation and it is not controlled by the College, and accordingly, EAF is not included in the College's financial statements. In its July 31, 2005 audited financial statements, the latest audited statements for EAF, EAF had assets, liabilities, and net assets of \$146,457,097; \$151,282,930; and \$(4,825,833), respectively, for the year ended July 31, 2005; which included bonds payable net of discounts of \$146,606,316. Additionally, EAF had operating revenue and expenses of \$19,659,930 and \$22,403,349, respectively, for the year ended July 31, 2005.

**(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.

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

Temporarily restricted net assets at August 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Gifts and other unexpended resources available for:		
Academic programs	\$ 8,057,963	8,305,048
Scholarships and fellowships	5,016,129	5,338,800
Student services	50,022	146,374
Community programs	1,968,244	2,075,645
Facility	<u>518,727</u>	<u>—</u>
Total temporarily restricted net assets	<u>\$ 15,611,085</u>	<u>15,865,867</u>

Permanently restricted net assets consist of endowment funds at August 31, 2005 and 2004. 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.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2005 and 2004

**(10) Expenses by Functional Classifications**

The following is a summary of total expenses classified by function for fiscal years 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Education and general:		
Instruction	\$ 85,815,630	78,248,004
Research	4,310,579	4,077,938
Public service	6,637,738	8,155,342
Library and other academic support	13,479,069	11,221,518
Student services	18,259,444	17,065,341
Institutional support	5,609,006	5,335,386
Auxiliary enterprises	12,588,114	2,478,215
Fundraising	3,689,399	2,829,155
	<u>\$ 150,388,979</u>	<u>129,410,899</u>