

**COLUMBIA COLLEGE CHICAGO**

Financial Statements

August 31, 2006 and 2005

(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, 2006 and 2005, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U. S. generally accepted accounting principles.

As discussed in footnote 2(j) of the financial statements, the College adopted the provision of Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* as of August 31, 2006.

KPMG LLP

December 15, 2006

**COLUMBIA COLLEGE CHICAGO**

Balance Sheets

August 31, 2006 and 2005

<b>Assets</b>	<b>2006</b>	<b>2005</b>
	<u>                    </u>	<u>                    </u>
Cash and cash equivalents	\$ 30,074,271	29,134,607
Student accounts receivable, less allowance of approximately \$12,922,000 in 2006 and \$8,134,000 in 2005	2,515,233	1,709,266
Other accounts and interest receivable, net	296,976	98,945
Deposits and prepaid expenses	2,360,832	1,312,803
Grants and contributions receivable, net (note 3)	2,324,584	2,663,144
Investments (note 4)	100,856,593	93,836,379
Bond funds held in trust (note 4)	4,755,393	7,723,698
Unamortized bond issue costs	2,283,626	2,376,979
Land, buildings, and equipment, less accumulated depreciation (note 5)	<u>135,486,735</u>	<u>117,550,800</u>
Total assets	<u>\$ 280,954,243</u>	<u>256,406,621</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 6,367,448	5,590,726
Accrued expenses	8,442,756	6,683,221
Refundable deposits and deferred revenue	32,035,834	25,848,967
Accrued interest payable	624,657	630,448
Accrued pension cost (note 7)	5,856,230	17,952,750
Asset retirement obligation (note 2(j))	2,581,497	—
Long-term debt (note 6)	<u>66,128,503</u>	<u>68,139,641</u>
Total liabilities	<u>122,036,925</u>	<u>124,845,753</u>
Commitments and contingencies (note 8)		
Net assets:		
Unrestricted	141,091,624	114,189,822
Temporarily restricted (note 9)	15,374,152	15,611,085
Permanently restricted (note 9)	<u>2,451,542</u>	<u>1,759,961</u>
Total net assets	<u>158,917,318</u>	<u>131,560,868</u>
Total liabilities and net assets	<u>\$ 280,954,243</u>	<u>256,406,621</u>

See accompanying notes to financial statements.

**COLUMBIA COLLEGE CHICAGO**

Statements of Activities

Years ended August 31, 2006 and 2005

	2006				2005			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:								
Revenue:								
Tuition and fees, net of \$5,410,901 and \$3,235,092 in tuition allowances	\$ 153,285,489	—	—	153,285,489	140,019,053	—	—	140,019,053
Student housing, net of \$718,532 and \$477,113 in room allowances	16,563,448	—	—	16,563,448	11,945,746	—	—	11,945,746
Sales and services	1,468,519	35,786	—	1,504,305	1,405,673	44,129	—	1,449,802
Private gifts and grants	472,251	129,148	—	601,399	679,838	79,332	—	759,170
Contracts and sponsored activities	1,409,923	4,740,168	—	6,150,091	1,590,475	4,215,281	—	5,805,756
Investment return for operations	4,393,883	765,695	—	5,159,578	3,574,349	836,466	—	4,410,815
Other	435,908	—	—	435,908	344,209	—	—	344,209
Net assets released from restrictions	6,002,725	(6,002,725)	—	—	5,418,440	(5,418,440)	—	—
Total operating revenue	184,032,146	(331,928)	—	183,700,218	164,977,783	(243,232)	—	164,734,551
Expenses (note 10):								
Salaries and wages	78,363,199	—	—	78,363,199	71,668,296	—	—	71,668,296
Employee benefits	20,743,090	—	—	20,743,090	17,847,266	—	—	17,847,266
Supplies and services	32,191,233	—	—	32,191,233	27,980,108	—	—	27,980,108
Operation and maintenance of plant	25,703,175	—	—	25,703,175	21,587,384	—	—	21,587,384
Interest	2,924,810	—	—	2,924,810	2,839,530	—	—	2,839,530
Depreciation and amortization	8,607,623	—	—	8,607,623	8,466,395	—	—	8,466,395
Total operating expenses	168,533,130	—	—	168,533,130	150,388,979	—	—	150,388,979
Operating revenue in excess of expenses	15,499,016	(331,928)	—	15,167,088	14,588,804	(243,232)	—	14,345,572
Nonoperating activities:								
Investment return, less amounts for operations	3,432,698	—	—	3,432,698	4,901,223	—	—	4,901,223
Capital gifts for facilities and collections	900,955	353,400	—	1,254,355	1,026,973	—	—	1,026,973
Gifts to permanently restricted funds	—	—	691,581	691,581	—	—	125,347	125,347
Gain (loss) on property value and disposal of equipment	(16,560)	—	—	(16,560)	20,182	—	—	20,182
Loss on extinguishment of debt	—	—	—	—	(215,640)	—	—	(215,640)
Net assets released from restrictions for capital gifts	258,405	(258,405)	—	—	—	—	—	—
Change in donor designation	—	—	—	—	—	(11,550)	11,550	—
Increase (decrease) in net assets before additional minimum pension liability adjustment and cumulative effect of change in accounting principle	20,074,514	(236,933)	691,581	20,529,162	20,321,542	(254,782)	136,897	20,203,657
Additional minimum pension liability adjustment (note 7)	8,255,235	—	—	8,255,235	(11,269,870)	—	—	(11,269,870)
Cumulative effect of change in accounting principle (note 2(j))	(1,427,947)	—	—	(1,427,947)	—	—	—	—
Changes in net assets	26,901,802	(236,933)	691,581	27,356,450	9,051,672	(254,782)	136,897	8,933,787
Net assets at beginning 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
Net assets at end of year	\$ 141,091,624	15,374,152	2,451,542	158,917,318	114,189,822	15,611,085	1,759,961	131,560,868

See accompanying notes to financial statements.

**COLUMBIA COLLEGE CHICAGO**

Statements of Cash Flows

Years ended August 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 27,356,450	8,933,787
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	1,427,947	—
Additional minimum pension liability adjustment	(8,255,235)	11,269,870
Depreciation of plant and equipment	8,543,425	8,404,582
Amortization of bond issue costs	93,353	61,813
Donation of fixed assets and collections	(1,254,355)	(1,026,973)
Net gain on investments	(4,428,914)	(7,280,914)
(Gain) or loss on disposal of fixed assets	16,560	(20,182)
Loss on extinguished debt	—	215,640
Gifts to endowment	(691,581)	(125,347)
Changes in assets and liabilities:		
Student accounts receivable	(805,967)	(171,989)
Other accounts and interest receivables	(198,031)	54,949
Deposits and prepaid expenses	(1,048,029)	142,210
Grants and contributions receivable	338,560	(401,232)
Accounts payable	776,722	306,794
Accrued expenses	1,759,535	820,980
Refundable deposits and deferred revenue	6,186,867	24,201,867
Accrued interest payable	(5,791)	(17,338)
Accrued pension cost	(3,841,285)	(6,914,741)
Net cash provided by operating activities	<u>25,970,231</u>	<u>38,453,776</u>
Cash flows from investing activities:		
Proceeds from sale of investments	59,597,430	11,668,702
Purchase of investments	(59,220,425)	(29,891,423)
Purchase of land, buildings, and equipment (net of nominal disposals)	(24,088,015)	(9,406,632)
Net cash used in investing activities	<u>(23,711,010)</u>	<u>(27,629,353)</u>
Cash flows from financing activities:		
Proceeds from gifts to endowment	691,581	125,347
Change in construction payable	—	161,880
Proceeds from sale of bonds	—	5,495,000
Payment of bond issue costs	—	(317,828)
Payment of bond underwriter discount	—	(75,344)
Bond reoffering premium	—	209,947
Principal payments on long-term debt	(2,011,138)	(7,188,834)
Net cash used in financing activities	<u>(1,319,557)</u>	<u>(1,589,832)</u>
Net increase in cash and cash equivalents	939,664	9,234,591
Cash and cash equivalents at beginning of year	<u>29,134,607</u>	<u>19,900,016</u>
Cash and cash equivalents at end of year	\$ <u>30,074,271</u>	\$ <u>29,134,607</u>
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	\$ 2,935,573	2,834,805
Supplementary disclosure of noncash transactions:		
Donated fixed assets and collections	\$ 1,254,355	1,026,973

See accompanying notes to financial statements.

# COLUMBIA COLLEGE CHICAGO

## Notes to Financial Statements

August 31, 2006 and 2005

### (1) Description of Organization

Columbia College Chicago (the College) is a private, not-for-profit, 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, 2006 and 2005

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 2006 and 2005) 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, 2006 and 2005

**(f) Investments**

Investments are carried at fair value. The fair value of investments is based upon quoted market prices, except for certain investments, primarily the alternative investments (hedge funds of funds), for which quoted market prices may not be available. The College's estimate of the fair value of the hedge fund-of-funds investments is determined based on valuations provided by the external investment managers. The valuations for these alternative investments necessarily involve estimates, appraisals, assumptions, and other analytical methods performed by investment managers and then reviewed by the College.

Investment income, gains and losses, and any investment related expenses are recorded as an increase/(decrease) in unrestricted net assets in the statement of activities unless their use is temporarily or permanently restricted by explicit donor stipulations or law. In the absence of donor stipulations or law to the contrary, losses on the investment of a donor-restricted endowment fund are applied to reduce temporarily restricted net assets to the extent that donor-imposed temporarily restrictions on net appreciation of the fund have not been met before the loss occurs.

**(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. Leased equipment is depreciated using a straight-line method over the term of the lease. 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.

In May 2006, the College finalized the purchase of a 10 story, 105,000 square foot building located at 618 S. Michigan, adjacent to the College's library and within the Historic Michigan Boulevard Chicago Landmark District. The building was purchased for \$8 million. The new space will be used to accommodate the growing needs of students, faculty, and administration.

**(h) Collections**

In 1997, the College began capitalizing its collections retroactively in conformity with Financial Accounting Standard Board (FASB) Statement No. 116, *Accounting for Contributions Received and*

## COLUMBIA COLLEGE CHICAGO

### Notes to Financial Statements

August 31, 2006 and 2005

*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.

**(j) *Cumulative Effect of Change in Accounting Principle***

Effective August 31, 2006 the College adopted FASB Interpretation No. 47, "*Accounting for Conditional Asset Retirement Obligations*" (FIN 47). FIN 47 requires the College to record a liability to recognize the estimated cost of conditional asset retirement obligations (CARO). FASB defines a CARO as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the College. The obligation to perform the asset retirement activity is unconditional even though the uncertainty exists about the timing and/or method of settlement. As a result the College identified asbestos abatement as a CARO. The costs of abatement were estimated using a variety of assumptions and estimates, including a cost-per-square-foot estimate, inflation estimates, and an estimated discount rate. As a result of this analysis the College has recorded site improvements of \$1,457,767 and associated accumulated depreciation of \$304,217; an asset retirement liability of \$2,581,497; and a cumulative effect of change in accounting principle of \$1,427,947.

**(k) *Fair Value of Financial Instruments***

Statement of Financial Accounting Standards No. 107, *Disclosure about Fair Value of Financial Instruments*, requires the College to disclose the fair value of financial instruments, both financial assets and liabilities, for which it is practicable to estimate fair value.

With the exception of the College's notes and bonds payable, the College's financial assets and liabilities are reported at fair value, or the carrying value approximates fair value due to the short maturity of the instrument. Management's estimate of the fair value of its debt approximates the carrying value based upon borrowing rates currently available to the College.

**(l) *Use of Estimates***

In order to prepare these financial statements in conformity with U.S. generally accepted accounting principles, 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

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2006 and 2005

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.

**(m) Reclassifications**

Certain 2005 balances have been reclassified in order to conform with 2006 presentation.

**(3) Grants and Contributions Receivable**

At August 31, 2006 and 2005, grants and contributions receivable were \$2,324,584 and \$2,663,144, respectively. Of the amount outstanding at August 31, 2006, \$2,264,584 is expected to be collected within one year and \$60,000 is expected to be collected within two to five years.

**(4) Investments**

The investments at August 31, 2006 and 2005 consisted of the following:

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Long-term investments:				
Cash and cash equivalents held				
by investment managers	\$ 3,154,177	3,154,177	4,305,325	4,305,325
Mutual funds – bonds	—	—	838,089	836,845
Corporate/government bonds	19,705,619	19,705,619	27,672,612	27,155,955
Corporate – preferred stocks	—	—	984,559	988,435
Mutual funds - equities	8,299,706	8,641,100	—	—
Corporate – common stocks	42,482,419	49,612,232	50,734,631	60,549,819
Hedge funds of funds	20,000,000	19,743,465	—	—
Total long-term investments	<u>93,641,921</u>	<u>100,856,593</u>	<u>84,535,216</u>	<u>93,836,379</u>
Bond funds held in trust – funds deposited with trustee for bond fund requirements (note 6)	4,755,393	4,755,393	7,723,698	7,723,698
	<u>\$ 98,397,314</u>	<u>105,611,986</u>	<u>92,258,914</u>	<u>101,560,077</u>

The components of total investment return for 2006 and 2005 are reflected below:

	<u>2006</u>	<u>2005</u>
Interest income and dividends	\$ 4,163,362	2,031,124
Realized and unrealized gains, net	4,428,914	7,280,914
Total return	<u>\$ 8,592,276</u>	<u>9,312,038</u>

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2006 and 2005

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

	<u>2006</u>	<u>2005</u>
Operating:		
Unrestricted	\$ 4,393,883	3,574,349
Temporarily restricted	765,695	836,466
	<u>5,159,578</u>	<u>4,410,815</u>
Non-operating:		
Unrestricted	3,432,698	4,901,223
Total return	\$ <u>8,592,276</u>	<u>9,312,038</u>

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

Land, buildings, and equipment at August 31, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Land	\$ 13,411,973	13,411,973
Buildings and improvements	135,096,453	116,579,048
Furnishings and equipment	49,301,535	46,055,014
Library collections	8,059,983	7,462,172
Museum and art collections	8,753,321	7,751,431
Construction-in-process	5,478,447	2,042,528
	<u>220,101,712</u>	<u>193,302,166</u>
Less accumulated depreciation	84,614,977	75,751,366
	\$ <u>135,486,735</u>	<u>117,550,800</u>

Outstanding commitments for construction contracts amounted to approximately \$1,856,000 at August 31, 2006.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2006 and 2005

**(6) Long-term Debt**

Long-term debt at August 31, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
IFA first mortgage notes:		
1998 Series issued February 11, 1998	\$ 19,460,000	20,485,000
2000 Series issued April 1, 2000	17,100,000	17,100,000
2003 Series issued October 15, 2003	22,235,000	22,630,000
2004 Series issued September 7, 2004	5,190,000	5,495,000
Land trust note issued April 30, 1993	500,000	500,000
Capital lease obligation	<u>792,622</u>	<u>1,030,165</u>
	65,277,622	67,240,165
2003 and 2004 Series reoffering premium	<u>850,881</u>	<u>899,476</u>
	<u>\$ 66,128,503</u>	<u>68,139,641</u>

Maturities of long-term debt outstanding at August 31, 2006 are as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Thereafter</u>	<u>Total</u>
IFA notes:							
1998 Series	\$ 1,075,000	1,130,000	1,185,000	1,245,000	1,305,000	13,520,000	19,460,000
2000 Series	—	—	—	—	—	17,100,000	17,100,000
2003 Series	405,000	840,000	870,000	910,000	945,000	18,265,000	22,235,000
2004 Series	320,000	340,000	360,000	375,000	390,000	3,405,000	5,190,000
Land trust note	—	—	—	—	—	500,000	500,000
Capital lease	<u>262,684</u>	<u>281,015</u>	<u>248,923</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>792,622</u>
	<u>\$ 2,062,684</u>	<u>2,591,015</u>	<u>2,663,923</u>	<u>2,530,000</u>	<u>2,640,000</u>	<u>52,790,000</u>	<u>65,277,622</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, 2006 and 2005

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 (8.25% at August 31, 2006) in effect at the time of use. The reimbursement agreement and letter of credit are for a three-year term and are renewable annually. As of August 31, 2006, 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, 2006.

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 the property is approximately \$5.7 million at August 31, 2006. The note is payable in full on April 30, 2029; interest on the note is 5% payable annually.

#### ***Capital Leases***

The College has certain lease agreements for copy machines, which are considered capital leases. The balance of the lease obligation was \$792,622 and \$1,030,165 at August 31, 2006 and 2005, respectively. Future minimum lease payments as of August 31, 2006 are as follows:

	<b><u>Annual lease payment</u></b>
Year:	
2007	\$ 542,680
2008	545,808
2009	<u>457,053</u>
Total	1,545,541
Less imputed interest	<u>(752,919)</u>
Present value of lease	<u><u>\$ 792,622</u></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 Service, indicating that the plan is exempt from tax under the applicable provisions of the Internal Revenue Code.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2006 and 2005

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, 2006 and 2005, as determined at the measurement dates of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 46,853,682	36,949,357
Interest cost	2,641,554	2,257,211
Actuarial (gain) loss	(6,435,902)	9,414,428
Benefits paid	<u>(1,906,203)</u>	<u>(1,767,314)</u>
Benefit obligation at end of year	\$ <u>41,153,131</u>	<u>46,853,682</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 32,269,270	26,937,961
Actual gain on plan assets	1,755,370	850,932
Employer contributions	4,917,226	6,247,691
Benefits paid	<u>(1,906,203)</u>	<u>(1,767,314)</u>
Fair value of plan assets at end of year	\$ <u>37,035,663</u>	<u>32,269,270</u>
	<u>2006</u>	<u>2005</u>
Funded status	\$ (4,117,468)	(14,584,412)
Unrecognized net actuarial loss	13,606,399	20,442,952
Unrecognized transition amount being recognized over 21 years	<u>(25,581)</u>	<u>(38,372)</u>
Net amount recognized	\$ <u>9,463,350</u>	<u>5,820,168</u>
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	\$ 9,463,350	5,820,168
Additional minimum pension liability	<u>(13,580,818)</u>	<u>(20,404,580)</u>
Net amount recognized in the balance sheet	\$ <u>(4,117,468)</u>	<u>(14,584,412)</u>

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2006 and 2005

The accumulated benefit obligation for the plan was \$41,153,131 and \$46,853,682 at August 31, 2006 and 2005, respectively.

Net periodic pension cost for the plan for the fiscal years ended August 31, 2006 and 2005 included the following components:

	<u>2006</u>	<u>2005</u>
Interest cost on projected benefit obligation	\$ 2,641,554	2,257,211
Expected return on plan assets	(2,405,225)	(2,042,471)
Net amortization and deferral	<u>1,037,715</u>	<u>525,858</u>
Net periodic pension cost	\$ <u>1,274,044</u>	<u>740,598</u>

Discount rates of 5.75% and 5% were used in determining the actuarial present value of the projected benefit obligations for fiscal years 2006 and 2005, respectively. The expected long-term rate of return on assets was 7.5% and 7% for fiscal years 2006 and 2005, 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 2006 and 2005 was 0%.

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

	<u>2006</u>	<u>2005</u>
Domestic public equities	27%	50%
International public equities	7	7
Fixed income	42	41
Alternatives	21	—
Cash	<u>3</u>	<u>2</u>
	<u>100%</u>	<u>100%</u>

The target asset allocation of 38% equities, 40% fixed income securities, 20% alternative investments, and 2% 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 \$4,900,000 to the plan during fiscal year 2007.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2006 and 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>Amount</u>
2007	\$ 1,002,673
2008	1,013,559
2009	1,047,059
2010	1,133,541
2011	1,279,337
2012-2016	9,529,300

**(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, 2006 and 2005

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, 2006 and 2005 as determined at the June 30, 2006 and 2005 measurement dates:

	<u>2006</u>	<u>2005</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 11,641,758	10,328,945
Interest cost	620,385	625,578
Actuarial (gain)/loss	(558,881)	1,039,574
Benefits paid	<u>(2,305,644)</u>	<u>(352,339)</u>
Benefit obligation at end of year	\$ <u>9,397,618</u>	<u>11,641,758</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 8,273,420	6,742,720
Actual gain on plan assets	667,382	216,037
Employer contributions	1,023,698	1,667,002
Benefits paid	<u>(2,305,644)</u>	<u>(352,339)</u>
Fair value of plan assets at end of year	\$ <u>7,658,856</u>	<u>8,273,420</u>
Funded status	\$ (1,738,762)	(3,368,338)
Unrecognized net actuarial loss	<u>2,821,701</u>	<u>4,253,175</u>
Net amount recognized	\$ <u>1,082,939</u>	<u>884,837</u>
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	\$ 1,082,939	884,837
Additional minimum pension liability	<u>(2,821,701)</u>	<u>(4,253,175)</u>
Net amount recognized in the balance sheet	\$ <u>(1,738,762)</u>	<u>(3,368,338)</u>

The accumulated benefit obligation for the plan was \$9,397,618 and \$11,641,758 at August 31, 2006 and 2005, respectively.

Net periodic pension cost for the plan for the fiscal years ended August 31, 2006 and 2005 included the following components:

	<u>2006</u>	<u>2005</u>
Interest cost on projected benefit obligation	\$ 620,385	625,578
Expected return on plan assets	(568,695)	(518,004)
Net amortization and deferral	<u>205,933</u>	<u>151,779</u>
Net periodic pension cost	\$ <u>257,623</u>	<u>259,353</u>

Discount rates of 5.75% and 5% were used in determining the actuarial present value of the projected benefit obligations for fiscal years 2006 and 2005, respectively. The expected long-term rate of

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2006 and 2005

return on assets was 7.5% and 7% for fiscal years 2006 and 2005, 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 2006 and 2005 was 0%.

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

	<u>2006</u>	<u>2005</u>
Domestic public equities	27%	50%
International public equities	7	7
Fixed income	42	41
Alternatives	21	—
Cash	3	2
	<u>100%</u>	<u>100%</u>

The target asset allocation of 38% equities, 40% fixed-income securities, 20% in alternative investments, and 2% 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 2007.

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>Amount</u>
2007	\$ 433,862
2008	482,604
2009	499,389
2010	597,360
2011	702,455
2012-2016	4,034,173

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.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2006 and 2005

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 \$3,611,078 and \$3,112,060 during fiscal year 2006 and 2005, respectively.

The College has accrued \$3,626,968 in employer contributions for the year ended August 31, 2006.

**(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:

2007	\$	15,011,176
2008		1,018,000
2009		995,000
2010		786,000
2011		100,000
Thereafter		4,650,000
	\$	<u>22,560,176</u>

Property and equipment rental expense was approximately \$15,277,821 and \$10,418,000 for fiscal years 2006 and 2005, respectively.

At August 31, 2006, future minimum rental income for space leased to others is as follows:

2007	\$	352,169
2008		131,760
2009		131,760
2010		131,760
2011		25,980
2012		4,000
	\$	<u>777,429</u>

# COLUMBIA COLLEGE CHICAGO

## Notes to Financial Statements

August 31, 2006 and 2005

**(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. For a one-year period commencing August 1, 2005 the membership agreed to guarantee EAF debt service coverage at 1:25 to 1, EAF was able to meet its debt service coverage ratio for this period. Columbia will pay EAF approximately \$11,000,000 (including approximately \$2,464,000 for Columbia's share of the residential life and meal plan expenses) towards its maximum rental liability in connection with its lease of 972 beds in fiscal year 2007. This lease obligation is reflected in the future minimum lease payments above. Subsequent to fiscal year 2007, 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 management of the UCC operations is provided by an international real estate management firm. The Chairman and Chief Executive Officer of that firm is also a College board member.

As noted above, EAF is a 501(c)(3) corporation and it is not controlled by the College, and accordingly, EAF is not combined with the College's financial statements. In its July 31, 2006 audited financial statements, the latest statements for EAF, EAF reported assets, liabilities, and net deficit of \$146,144,286; \$150,653,097; and \$(4,508,811), respectively, which included bonds payable net of discounts of \$146,755,236. Additionally, EAF had operating revenue and expenses of \$23,621,738 and \$23,237,596, respectively, for the year ended July 31, 2006.

**(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, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Gifts and other unexpended resources available for:		
Academic programs	\$ 7,776,646	8,057,963
Scholarships and fellowships	5,604,831	5,016,129
Student services	48,986	50,022
Community programs	1,341,675	1,968,244
Facility	602,014	518,727
Total temporarily restricted net assets	<u>\$ 15,374,152</u>	<u>15,611,085</u>

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2006 and 2005

Permanently restricted net assets consist of endowment funds at August 31, 2006 and 2005. 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.

**(10) Expenses by Functional Classifications**

The following is a summary of total expenses classified by function for fiscal years 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Education and general:		
Instruction	\$ 92,979,047	85,815,630
Research	4,723,352	4,310,579
Public service	6,422,880	6,637,738
Library and other academic support	16,369,963	13,479,069
Student services	19,716,076	18,259,444
Institutional support	6,295,846	5,609,006
Auxiliary enterprises	17,681,226	12,588,114
Fundraising	4,344,740	3,689,399
	<u>\$ 168,533,130</u>	<u>150,388,979</u>