

COLUMBIA COLLEGE CHICAGO

Financial Statements

August 31, 2007 and 2006

(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, 2007 and 2006, 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, 2007 and 2006, 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 note 7 to the financial statements, the College adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)*, as of August 31, 2007.

As discussed in note 2(j) to the financial statements, the College adopted the provision of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143*, as of August 31, 2006.

KPMG LLP

December 4, 2007

COLUMBIA COLLEGE CHICAGO

Balance Sheets

August 31, 2007 and 2006

Assets	2007	2006
Cash and cash equivalents	\$ 36,227,172	30,074,271
Student accounts receivable, less allowance of approximately \$17,268,000 in 2007 and \$12,922,000 in 2006	2,970,232	2,515,233
Other accounts and interest receivable, net	339,679	296,976
Deposits and prepaid expenses	2,886,656	2,360,832
Grants and contributions receivable, net	2,948,369	2,324,584
Investments	108,146,189	100,856,593
Bond funds held in trust	4,997,407	4,755,393
Unamortized bond issue costs	2,151,377	2,283,626
Land, buildings, and equipment, net	149,468,074	135,486,735
Total assets	<u>\$ 310,135,155</u>	<u>280,954,243</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 8,491,107	6,367,448
Accrued expenses	7,985,030	8,442,756
Refundable deposits and deferred revenue	35,486,895	32,035,834
Accrued interest payable	608,684	624,657
Accrued pension cost	1,728,814	5,856,230
Asset retirement obligation	2,905,576	2,581,497
Long-term debt	64,062,445	66,128,503
Total liabilities	<u>121,268,551</u>	<u>122,036,925</u>
Commitments and contingencies		
Net assets:		
Unrestricted	171,883,694	141,091,624
Temporarily restricted	14,167,838	15,374,152
Permanently restricted	2,815,072	2,451,542
Total net assets	<u>188,866,604</u>	<u>158,917,318</u>
Total liabilities and net assets	<u>\$ 310,135,155</u>	<u>280,954,243</u>

See accompanying notes to financial statements.

COLUMBIA COLLEGE CHICAGO

Statements of Activities

Years ended August 31, 2007 and 2006

	2007			2006				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:								
Revenue:								
Tuition and fees, net of \$6,059,085 and \$5,410,901 in tuition allowances	\$ 169,961,755	—	—	169,961,755	153,285,489	—	—	153,285,489
Student housing, net of \$716,164 and \$718,532 in room allowances	20,999,437	—	—	20,999,437	16,563,448	—	—	16,563,448
Sales and services	2,162,937	139,098	—	2,302,035	1,468,519	35,786	—	1,504,305
Private gifts and grants	534,791	784,611	—	1,319,402	472,251	129,148	—	601,399
Contracts and sponsored activities	829,077	4,150,005	—	4,979,082	1,409,923	4,740,168	—	6,150,091
Investment return for operations	5,148,308	—	—	5,148,308	4,393,883	765,695	—	5,159,578
Other	507,692	—	—	507,692	435,908	—	—	435,908
Net assets released from restrictions	8,249,368	(8,249,368)	—	—	6,002,725	(6,002,725)	—	—
Total operating revenue	208,393,365	(3,175,654)	—	205,217,711	184,032,146	(331,928)	—	183,700,218
Expenses								
Salaries and wages	86,288,716	—	—	86,288,716	78,363,199	—	—	78,363,199
Employee benefits	19,730,987	—	—	19,730,987	20,743,090	—	—	20,743,090
Supplies and services	37,138,534	—	—	37,138,534	32,191,233	—	—	32,191,233
Operation and maintenance of plant	30,073,956	—	—	30,073,956	25,703,175	—	—	25,703,175
Interest	3,306,178	—	—	3,306,178	2,924,810	—	—	2,924,810
Depreciation and amortization	9,081,385	—	—	9,081,385	8,607,623	—	—	8,607,623
Total operating expenses	185,619,756	—	—	185,619,756	168,533,130	—	—	168,533,130
Operating revenue in excess of expenses	22,773,609	(3,175,654)	—	19,597,955	15,499,016	(331,928)	—	15,167,088
Nonoperating activities:								
Investment return, less amounts for operations	4,290,718	4,540	—	4,295,258	3,432,698	—	—	3,432,698
Capital gifts for facilities and collections	2,987,899	2,001,918	—	4,989,817	900,955	353,400	—	1,254,355
Gifts to permanently restricted funds	—	—	409,303	409,303	—	—	691,581	691,581
Loss on disposal of equipment	(2,458)	—	—	(2,458)	(16,560)	—	—	(16,560)
Change in fund designation	82,891	(37,118)	(45,773)	—	—	—	—	—
Net assets released from restrictions for capital gifts	—	—	—	—	258,405	(258,405)	—	—
Increase (decrease) in net assets before additional minimum pension liability adjustment and cumulative effect of change in accounting principle	30,132,659	(1,206,314)	363,530	29,289,875	20,074,514	(236,933)	691,581	20,529,162
Additional minimum pension liability adjustment	698,863	—	—	698,863	8,255,235	—	—	8,255,235
Cumulative effect of change in accounting principle	(39,452)	—	—	(39,452)	(1,427,947)	—	—	(1,427,947)
Changes in net assets	30,792,070	(1,206,314)	363,530	29,949,286	26,901,802	(236,933)	691,581	27,356,450
Net assets at beginning 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
Net assets at end of year	\$ 171,883,694	14,167,838	2,815,072	188,866,604	141,091,624	15,374,152	2,451,542	158,917,318

See accompanying notes to financial statements.

COLUMBIA COLLEGE CHICAGO

Statements of Cash Flows

Years ended August 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 29,949,286	27,356,450
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	39,452	1,427,947
Additional minimum pension liability adjustment	(698,863)	(8,255,235)
Depreciation	8,995,212	8,543,425
Amortization of bond issue costs	132,249	93,353
Donation of fixed assets and collections	(2,916,274)	(1,254,355)
Net gain on investments	(5,616,663)	(4,428,914)
Loss on disposal of fixed assets	2,458	16,560
Gifts to endowment	(409,303)	(691,581)
Changes in assets and liabilities:		
Student accounts receivable	(454,999)	(805,967)
Other accounts and interest receivable	(42,703)	(198,031)
Deposits and prepaid expenses	(525,824)	(1,048,029)
Grants and contributions receivable	(623,785)	338,560
Accounts payable	2,123,659	776,722
Accrued expenses	(457,726)	1,759,535
Refundable deposits and deferred revenue	3,451,061	6,186,867
Accrued interest payable	(15,973)	(5,791)
Accrued pension cost	(3,468,005)	(3,841,285)
Change in asset retirement obligation	324,079	—
Net cash provided by operating activities	<u>29,787,338</u>	<u>25,970,231</u>
Cash flows from investing activities:		
Proceeds from sale of investments	120,962,430	56,629,125
Purchase of investments	(122,635,363)	(59,220,425)
(Increase) decrease in bond funds held in trust	(242,014)	2,968,305
Purchase of land, buildings, and equipment (net of nominal disposals)	<u>(19,162,735)</u>	<u>(24,088,015)</u>
Net cash used in investing activities	<u>(21,077,682)</u>	<u>(23,711,010)</u>
Cash flows from financing activities:		
Proceeds from gifts to endowment	409,303	691,581
Principal payment on line of credit	(900,000)	—
Principal payments on long-term debt	<u>(2,066,058)</u>	<u>(2,011,138)</u>
Net cash used in financing activities	<u>(2,556,755)</u>	<u>(1,319,557)</u>
Net increase in cash and cash equivalents	6,152,901	939,664
Cash and cash equivalents at beginning of year	<u>30,074,271</u>	<u>29,134,607</u>
Cash and cash equivalents at end of year	\$ <u><u>36,227,172</u></u>	\$ <u><u>30,074,271</u></u>
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	\$ 2,849,251	2,935,573
Supplementary disclosure of noncash transactions:		
Donated fixed assets and collections	\$ 3,816,274	1,254,355

See accompanying notes to financial statements.

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Notes to Financial Statements

August 31, 2007 and 2006

(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 releases to the unrestricted net asset classification when the restriction has been met.

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

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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) *Long-Term Pooled Investment Payout*

The College has adopted a spending policy in support of current operational budget requirements. This policy allows for the spending of a percentage (5% for fiscal years 2007 and 2006) of the average fair value of the long-term pooled (LTP) investments over the past three years. Pooled investments consist of assets of the College's endowment, certain temporarily restricted funds, and funds designated by the Board of Trustees to be invested as endowment. If investment yields (i.e., interest and dividends) are in excess of the established spending rate, such excess is returned to the LTP investments 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.

(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 for which quoted market prices may not be available. The College invests its long-term assets in various funds managed by an

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Notes to Financial Statements

August 31, 2007 and 2006

external investment manager. Each fund utilizes a unique investment strategy. Among these funds, the equities, corporate/government bonds, and the hedge funds-of-funds (see note 4) are characterized as alternative investments because quoted market prices are not readily available for the investments. The College's estimate of the fair value of the hedge funds-of-funds investments is determined based on valuations provided by the external investment managers. The fair value of the global equities and the corporate/government bonds funds is based on marketable securities, however, the underlying investments are not immediately available to the College. 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 temporary 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, and using a half-year convention, whereby, only one-half year of depreciation is recorded in the year the asset is placed in service and the depreciation is extended an additional half-year following the last year of useful life. The estimated useful lives 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 July 2007, the College finalized the purchase of two adjacent buildings located at 916 and 1000 S. Wabash Ave, Chicago, IL. The 916 S. Wabash building is a 40,000 square foot, five-story office building; and the 1000 S. Wabash building is a 28,000 square foot, two-story office building. The buildings were purchased for a total price of \$6.1 million. The new space will be used to accommodate the growing needs of students, faculty, and administration.

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Notes to Financial Statements

August 31, 2007 and 2006

(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 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) Conditional Asset Retirement Obligation

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, at August 31, 2007 and 2006 the College has recorded site improvements of \$1,425,627 and \$1,457,767; associated accumulated depreciation of \$339,988 and \$304,217; and an asset retirement obligation of \$2,905,576 and \$2,581,497, respectively. At August 31, 2006, the excess of the obligation over the net book value of the CARO was \$1,427,947 and was reported as a cumulative effect of a change in accounting principle for the year ended August 31, 2006.

(k) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures 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.

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Notes to Financial Statements

August 31, 2007 and 2006

(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 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 2006 balances have been reclassified in order to conform with 2007 presentation.

(3) Grants and Contributions Receivable

At August 31, 2007 and 2006, grants and contributions receivable were \$2,948,369 and \$2,324,584, respectively, net of discounts and allowances of \$173,669 for 2007 and \$0 for 2006. Of the amount outstanding at August 31, 2007, \$1,713,369 is expected to be collected within one year and \$1,235,000 is expected to be collected within two to five years.

(4) Investments

The investments at August 31, 2007 and 2006 consisted of the following:

	2007		2006	
	<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	\$ 19,228	19,228	3,154,177	3,154,177
Real estate trusts	12,025,207	10,266,685	—	—
Corporate/government bonds	15,481,380	15,660,479	19,705,619	19,705,619
Mutual funds – equities	58,301,605	61,052,016	8,299,706	8,641,100
Corporate – common stocks	—	—	42,482,419	49,612,232
Hedge funds of funds	22,063,586	21,147,781	20,000,000	19,743,465
Total long-term investments	107,891,006	108,146,189	93,641,921	100,856,593
Bond funds held in trust – funds deposited with trustee for bond fund requirements (note 6)	4,997,407	4,997,407	4,755,393	4,755,393
	<u>\$ 112,888,413</u>	<u>113,143,596</u>	<u>98,397,314</u>	<u>105,611,986</u>

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Notes to Financial Statements

August 31, 2007 and 2006

The components of total investment return for 2007 and 2006 are reflected below:

	<u>2007</u>	<u>2006</u>
Interest income and dividends	\$ 3,826,903	4,163,362
Realized and unrealized gains, net	<u>5,616,663</u>	<u>4,428,914</u>
Total return	<u>\$ 9,443,566</u>	<u>8,592,276</u>

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

	<u>2007</u>	<u>2006</u>
Operating:		
Unrestricted	\$ 5,148,308	4,393,883
Temporarily restricted	<u>—</u>	<u>765,695</u>
	5,148,308	5,159,578
Nonoperating:		
Unrestricted	4,290,718	3,432,698
Temporarily restricted	<u>4,540</u>	<u>—</u>
Total return	<u>\$ 9,443,566</u>	<u>8,592,276</u>

(5) Land, Buildings, and Equipment

Land, buildings, and equipment at August 31, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 20,158,172	13,411,973
Buildings and improvements	144,927,757	135,096,453
Furnishings and equipment	54,420,646	49,301,535
Library collections	8,699,295	8,059,983
Museum and art collections	9,310,882	8,753,321
Construction in process	<u>5,312,835</u>	<u>5,478,447</u>
	242,829,587	220,101,712
Less accumulated depreciation	<u>93,361,513</u>	<u>84,614,977</u>
	<u>\$ 149,468,074</u>	<u>135,486,735</u>

Outstanding commitments for construction contracts amounted to approximately \$791,000 at August 31, 2007.

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Notes to Financial Statements

August 31, 2007 and 2006

(6) Long-Term Debt

Long-term debt at August 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
IFA first mortgage notes:		
1998 Series issued February 11, 1998	\$ 18,385,000	19,460,000
2000 Series issued April 1, 2000	17,100,000	17,100,000
2003 Series issued October 15, 2003	21,830,000	22,235,000
2004 Series issued September 7, 2004	4,870,000	5,190,000
Land trust note issued April 30, 1993	500,000	500,000
Capital lease obligation	572,639	792,622
	<u>63,257,639</u>	<u>65,277,622</u>
2003 and 2004 Series reoffering premium	804,806	850,881
	<u>\$ 64,062,445</u>	<u>66,128,503</u>

Maturities of long-term debt outstanding at August 31, 2007 are as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>	<u>Total</u>
IFA notes:							
1998 Series	\$ 1,130,000	1,185,000	1,245,000	1,305,000	1,365,000	12,155,000	18,385,000
2000 Series	—	—	—	—	—	17,100,000	17,100,000
2003 Series	840,000	870,000	910,000	945,000	680,000	17,585,000	21,830,000
2004 Series	340,000	360,000	375,000	390,000	415,000	2,990,000	4,870,000
Land trust note	—	—	—	—	—	500,000	500,000
Capital lease	299,460	263,712	9,467	—	—	—	572,639
	<u>\$ 2,609,460</u>	<u>2,678,712</u>	<u>2,539,467</u>	<u>2,640,000</u>	<u>2,460,000</u>	<u>50,330,000</u>	<u>63,257,639</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 7.0%. 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.

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, 2007) 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, 2007, no amounts have been drawn on the letter of credit. The letter of credit is valid through April 10, 2008. Should the irrevocable letter of

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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 as of August 31, 2007.

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 \$5.6 million at August 31, 2007. The note is payable in full on April 30, 2029. Interest on the note is 5% payable annually.

In May 2007, the College entered into a line-of-credit agreement, with an expiration date of May 23, 2008, that allows borrowings of up to \$10 million for the period May 1 – August 31; and up to \$2 million for the period September 1 – April 30. Borrowings under this line will bear interest at the London InterBank Offer Rate (LIBOR) plus 50 basis points. No amounts were outstanding under this agreement as of August 31, 2007. The College is subject to certain debt covenants under this agreement, and as of August 31, 2007 the College's management believes it has met all covenants.

Capital Leases

The College has certain lease agreements for copy machines, which are considered capital leases. Future minimum lease payments as of August 31, 2007 are as follows:

	<u>Annual lease payment</u>
Year:	
2008	\$ 596,450
2009	501,987
2010	<u>33,924</u>
Total	1,132,361
Less imputed interest	<u>(559,722)</u>
Present value of lease	<u><u>\$ 572,639</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.

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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.

In September 2006, FASB issued Statement of Financial Accounting Standards (FAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)*, (FAS No. 158). FAS No. 158 is effective for the College as of August 31, 2007. FAS No. 158 requires the College to recognize the funded status of the plan measured as the difference between the fair value of plan assets and the accumulated postretirement benefit obligation. However, because the plan had been frozen the College does not have unrecognized components to report. Adopting the provisions of FAS No. 158 also required the College to change the measurement date of the plan's assets and obligations from June 30, 2007 to August 31, 2007. By adopting the FAS No. 158 measurement date provision, the College changed the measurement date to August 31, 2007. This change resulted in a direct reduction of unrestricted net assets of \$20,432 as of August 31, 2007.

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, 2007 and 2006, as determined at the measurement dates of August 31, 2007 and June 30, 2006:

	<u>2007</u>	<u>2006</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 41,153,131	46,853,682
Interest cost	2,741,609	2,641,554
Actuarial loss (gain)	989,711	(6,435,902)
Benefits paid	<u>(1,466,960)</u>	<u>(1,906,203)</u>
Benefit obligation at end of year	<u>\$ 43,417,491</u>	<u>41,153,131</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 37,035,663	32,269,270
Actual gain on plan assets	3,884,826	1,755,370
Employer contributions	2,300,000	4,917,226
Benefits paid	<u>(1,466,960)</u>	<u>(1,906,203)</u>
Fair value of plan assets at end of year	<u>\$ 41,753,529</u>	<u>37,035,663</u>

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	<u>2007</u>	<u>2006</u>
Funded status	\$ (1,663,962)	(4,117,468)
Unrecognized net actuarial loss	—	13,606,399
Unrecognized transition amount being recognized over 21 years	—	(25,581)
Net amount recognized	<u>\$ (1,663,962)</u>	<u>9,463,350</u>
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	\$ —	9,463,350
Pension liability	<u>(1,663,962)</u>	<u>(13,580,818)</u>
Net amount recognized in the balance sheet	<u>\$ (1,663,962)</u>	<u>(4,117,468)</u>

The accumulated benefit obligation for the plan was \$43,417,491 and \$41,153,131 at August 31, 2007 and 2006, respectively.

Net periodic pension cost for the plan for the fiscal years ended August 31, 2007 and 2006 included the following components:

	<u>2007</u>	<u>2006</u>
Interest cost on projected benefit obligation	\$ 2,741,609	2,641,554
Expected return on plan assets	(3,218,535)	(2,405,225)
Net amortization and deferral	<u>619,948</u>	<u>1,037,715</u>
Net periodic pension cost	<u>\$ 143,022</u>	<u>1,274,044</u>

A discount rate of 5.75% was used in determining the actuarial present value of the projected benefit obligations for fiscal years 2007 and 2006. The expected long-term rate of return on assets was 7.50% for fiscal years 2007 and 2006, and is based on analysis of historical rates of return. The projected salary increase to normal retirement age for all employees for fiscal years 2007 and 2006 was 0%.

Weighted average asset allocation by asset category is as follows:

	<u>2007</u>	<u>2006</u>
Global equities	48%	34%
Fixed income	20	42
Alternatives	21	21
Real estate	11	—
Cash	—	3
	<u>100%</u>	<u>100%</u>

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The 2007 target asset allocation of 50% global equities, 20% fixed income securities, 20% alternative investments, and 10% real estate 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 \$2,500,000 to the plan during fiscal year 2008.

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>
2008	\$ 1,044,550
2009	1,108,789
2010	1,159,533
2011	1,339,274
2012	1,579,733
2013 – 2017	11,235,370

(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. In fiscal year 2007, the College approved a plan to terminate the Retirement Plan by August 31, 2008. The College plans to fully fund all liabilities, and provide notice and information to all enrollees as required.

In September 2006 FASB issued FAS No. 158 is effective for the College as of August 31, 2007. FAS No. 158 requires the College to recognize the funded status of the plan measured as the difference between the fair value of plan assets and the accumulated postretirement benefit obligation. However, because the plan had been frozen the College does not have unrecognized components to report. Adopting the provisions of FAS No. 158 also required the College to change the measurement date of the plan's assets and obligations from June 30, 2007 to August 31, 2007. By adopting the FAS No. 158 measurement date provision, the College changed the measurement date to August 31, 2007. This change resulted in a direct reduction of unrestricted net assets of \$19,020 as of August 31, 2007.

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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, 2007 and 2006 as determined at the August 31, 2007 and June 30, 2006 measurement dates:

	<u>2007</u>	<u>2006</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 9,397,618	11,641,758
Interest cost	598,328	620,385
Actuarial (gain)/loss	145,490	(558,881)
Benefits paid	<u>(1,182,510)</u>	<u>(2,305,644)</u>
Benefit obligation at end of year	\$ <u>8,958,926</u>	<u>9,397,618</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 7,658,856	8,273,420
Actual gain on plan assets	717,728	667,382
Employer contributions	1,700,000	1,023,698
Benefits paid	<u>(1,182,510)</u>	<u>(2,305,644)</u>
Fair value of plan assets at end of year	\$ <u>8,894,074</u>	<u>7,658,856</u>
Funded status	\$ (64,852)	(1,738,762)
Unrecognized net actuarial loss	<u>—</u>	<u>2,821,701</u>
Net amount recognized	\$ <u>(64,852)</u>	<u>1,082,939</u>
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	\$ —	1,082,939
Pension liability	<u>(64,852)</u>	<u>(2,821,701)</u>
Net amount recognized in the balance sheet	\$ <u>(64,852)</u>	<u>(1,738,762)</u>

The accumulated benefit obligation for the plan was \$8,958,926 and \$9,397,618 at August 31, 2007 and 2006, respectively.

Net periodic pension cost for the plan for the fiscal years ended August 31, 2007 and 2006 included the following components:

	<u>2007</u>	<u>2006</u>
Interest cost on projected benefit obligation	\$ 598,329	620,385
Expected return on plan assets	(628,449)	(568,695)
Net amortization and deferral	<u>163,263</u>	<u>205,933</u>
Net periodic pension cost	\$ <u>133,143</u>	<u>257,623</u>

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A discount rate of 5.75% was used in determining the actuarial present value of the projected benefit obligations for fiscal years 2007 and 2006, respectively. The expected long-term rate of return on assets was 7.5% for both fiscal years 2007 and 2006, and is based on analysis of historical rates of return. The projected salary increase to normal retirement age for all employees for fiscal years 2007 and 2006 was 0%.

Weighted average asset allocations by asset category are as follows:

	<u>2007</u>	<u>2006</u>
Global equities	48%	34%
Fixed income	20	42
Alternatives	21	21
Real estate	11	—
Cash	—	3
	<u>100%</u>	<u>100%</u>

The target asset allocation of 50% global equities, 20% fixed-income securities, 20% in alternative investments, and 10% real estate 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 \$1,000,000 to the plan during fiscal year 2008.

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>
2008	\$ 470,773
2009	459,802
2010	558,521
2011	680,913
2012	719,978
2013 – 2017	3,995,575

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 2007, the plan assets were invested in equity and fixed income securities under the investment management of Alliance Bernstein Global Wealth Management, as the plan custodian. Funding contributions are based on the maximum amount allowed under the Employee Retirement Income Security Act of 1974 as actuarially determined.

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(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.

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 \$3,751,785 and \$3,611,078 during fiscal year 2007 and 2006, respectively.

The College has accrued \$2,649,446 in employer contributions for the year ended August 31, 2007.

(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:

2008	\$	19,541,188
2009		6,011,600
2010		6,167,246
2011		5,503,465
2012		5,721,442
Thereafter		9,104,093
	\$	<u>52,049,034</u>

Property and equipment rental expense was approximately \$17,896,206 and \$15,277,821 for fiscal years 2007 and 2006, respectively.

At August 31, 2007, future minimum rental income for space leased to others is as follows:

2008	\$	271,686
2009		131,760
2010		131,760
2011		25,980
2012		4,000
	\$	<u>565,186</u>

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(b) University Center of Chicago

On May 30, 2002, the College entered into a multischool 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 approximately 1,700 students and live-in staff near the College's downtown campus. The schools formed a not-for-profit corporation called Education Advancement Fund, Inc. (EAF) to develop, operate, and own UCC. The College is a 40.625% member of the EAF. The College will pay EAF approximately \$12.5 million (including approximately \$3.3 million for the College's share of the residential life and meal plan expenses) towards its maximum rental liability in connection with its lease of 951 beds in fiscal year 2008. This lease obligation of \$9.3 million is reflected in the aforementioned future minimum lease payments. Subsequent to fiscal year 2008, the College 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, 2007 audited financial statements, the latest statements for EAF, EAF reported assets, liabilities, and net deficit of \$154,515,295; \$163,666,080; and \$(9,150,785), respectively, which included bonds payable net of discounts of \$158,819,717. Additionally, EAF had operating revenue and expenses of \$25,622,424 and \$23,630,861, respectively, for the year ended July 31, 2007.

(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, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Gifts and other unexpended resources available for:		
Academic programs	\$ 5,139,309	7,776,646
Scholarships and fellowships	4,972,361	5,604,831
Student services	—	48,986
Community programs	1,308,105	1,341,675
Facility	<u>2,748,063</u>	<u>602,014</u>
Total temporarily restricted net assets	<u>\$ 14,167,838</u>	<u>15,374,152</u>

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Permanently restricted net assets consist of endowment funds at August 31, 2007 and 2006. 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) Sherwood Conservatory of Music

On July 13, 2007, the College entered into an agreement with the Sherwood Conservatory of Music (SCM) whereby Sherwood agreed to contribute all of its assets and liabilities to the College. The agreement provides, among other things, that SCM would cease to exist as a corporation and the College shall possess all the rights and privileges of SCM, and all property, and all debts due on whatever accounts shall be transferred to the College. As a result of the transfer, the College recorded total assets of \$3,587,574, which included a two-story 22,500 square foot building located at 1312 S. Michigan Ave., Chicago, IL with a fair value of \$3,150,000; and liabilities of \$1,007,057, including an outstanding line of credit in the amount of \$900,000; and a net contribution from Sherwood of \$2,580,517, which was reported in the *Statement of Activities* as *Capital Gifts for Facilities and Collections*. As of August 31, 2007, the line of credit was repaid in full by the College.

(11) Expenses by Functional Classifications

The following is a summary of total expenses classified by function for fiscal years 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Program:		
Instruction	\$ 101,563,254	92,979,047
Research	3,867,428	4,723,352
Public service	7,220,917	6,422,880
Library and other academic support	17,928,444	16,369,963
Student services	21,177,823	19,716,076
Auxiliary enterprises	22,977,569	17,681,226
Total program services	<u>174,735,435</u>	<u>157,892,544</u>
Support:		
Institutional support	6,693,595	6,295,846
Fund-raising	4,190,726	4,344,740
Total support services	<u>10,884,321</u>	<u>10,640,586</u>
Total expenses	<u>\$ 185,619,756</u>	<u>168,533,130</u>

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(12) Subsequent Events

On September 13, 2007 the College issued \$48,295,000 in revenue bonds through the IFA. The bonds are fixed rate instruments with interest rates ranging from 5.0% to 5.25%, and maturing through December 1, 2037. Payment of interest and principal on the bonds when due is guaranteed by a financial guaranty bond insurance policy issued by MBIA Insurance Corporation. The proceeds of the bond issue will be used to finance the acquisition, renovation, construction, and equipping of the College's facilities; fund a debt service reserve fund; and finance the costs of issuance of the bonds.