

**COLUMBIA COLLEGE CHICAGO**

Financial Statements

August 31, 2009 and 2008

(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, 2009 and 2008, 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 as a basis for 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, 2009 and 2008, 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 notes 2 and 11 to the financial statements, the College adopted the provisions of Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements*, and Financial Accounting Standards Board Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, in 2009.

**KPMG LLP**

December 9, 2009

**COLUMBIA COLLEGE CHICAGO**

Balance Sheets

August 31, 2009 and 2008

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 34,593,978	47,636,856
Student accounts receivable, less allowance of approximately \$30,735,000 in 2009 and \$23,567,000 in 2008	3,293,980	5,620,524
Other accounts and interest receivable, net	351,819	329,777
Deposits and prepaid expenses	4,349,378	3,765,457
Grants and contributions receivable, net	3,046,762	3,464,060
Investments	88,455,494	97,093,372
Bond funds held in trust	9,773,898	39,087,707
Unamortized bond issue costs	3,175,608	3,498,577
Land, buildings, and equipment, net	192,981,595	168,630,487
Total assets	\$ <u>340,022,512</u>	<u>369,126,817</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 8,647,495	12,547,317
Accrued expenses	9,655,080	9,364,821
Refundable deposits and deferred revenue	18,934,994	46,030,063
Accrued interest payable	1,108,009	1,153,945
Accrued pension cost	12,673,179	7,219,764
Asset retirement obligation	2,547,036	2,560,939
Long-term debt	106,864,918	108,947,562
Total liabilities	<u>160,430,711</u>	<u>187,824,411</u>
Commitments and contingencies		
Net assets:		
Unrestricted	160,249,897	167,017,410
Temporarily restricted	15,648,917	11,209,595
Permanently restricted	3,692,987	3,075,401
Total net assets	<u>179,591,801</u>	<u>181,302,406</u>
Total liabilities and net assets	\$ <u>340,022,512</u>	<u>369,126,817</u>

See accompanying notes to financial statements.

**COLUMBIA COLLEGE CHICAGO**

Statements of Activities

Years ended August 31, 2009 and 2008

	2009			2008				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:								
Revenue:								
Tuition and fees, net of \$8,310,000 and \$7,180,000 in tuition allowances	\$ 202,180,798	—	—	202,180,798	187,038,590	—	—	187,038,590
Student housing, net of \$646,000 and \$775,000 in room allowances	26,755,724	—	—	26,755,724	25,239,209	—	—	25,239,209
Sales and services	4,364,954	399,571	—	4,764,525	3,860,751	257,719	—	4,118,470
Private gifts and grants	440,570	946,116	—	1,386,686	379,488	1,304,376	—	1,683,864
Contracts and sponsored activities	954,746	5,473,091	—	6,427,837	1,066,215	5,998,218	—	7,064,433
Investment return for operations	4,674,561	—	—	4,674,561	6,211,927	—	—	6,211,927
Other	505,403	23,364	—	528,767	721,458	26,582	—	748,040
Net assets released from restrictions	6,727,013	(6,727,013)	—	—	11,726,161	(11,726,161)	—	—
Total operating revenue	246,603,769	115,129	—	246,718,898	236,243,799	(4,139,266)	—	232,104,533
Expenses:								
Salaries and wages	102,358,828	—	—	102,358,828	96,553,790	—	—	96,553,790
Employee benefits	25,916,352	—	—	25,916,352	22,904,776	—	—	22,904,776
Supplies and services	38,816,704	—	—	38,816,704	38,584,509	—	—	38,584,509
Operation and maintenance of plant	40,405,932	—	—	40,405,932	36,480,445	—	—	36,480,445
Interest	4,088,486	—	—	4,088,486	4,846,698	—	—	4,846,698
Depreciation and amortization	11,289,627	—	—	11,289,627	9,621,292	—	—	9,621,292
Total operating expenses	222,875,929	—	—	222,875,929	208,991,510	—	—	208,991,510
Excess (deficiency) of operating revenue over expenses	23,727,840	115,129	—	23,842,969	27,252,289	(4,139,266)	—	23,113,023
Nonoperating activities:								
Investment (loss) return, less amounts for operations	(22,815,854)	90,702	—	(22,725,152)	(23,369,832)	67,720	—	(23,302,112)
Capital gifts for facilities and collections	1,053,532	3,980,713	—	5,034,245	494,376	1,113,303	—	1,607,679
Gifts to permanently restricted funds	—	—	117,586	117,586	—	—	260,329	260,329
Gain (loss) on disposal of equipment	3,120	—	—	3,120	(14,370)	—	—	(14,370)
Recognition of change in pension funded status	(7,983,373)	—	—	(7,983,373)	(9,228,747)	—	—	(9,228,747)
Change in fund designator	(500,000)	—	500,000	—	—	—	—	—
Increase (decrease) in net assets before cumulative effect of change in accounting principle	(6,514,735)	4,186,544	617,586	(1,710,605)	(4,866,284)	(2,958,243)	260,329	(7,564,198)
Cumulative effect of change in accounting principle (note 11)	(252,778)	252,778	—	—	—	—	—	—
Change in net assets	(6,767,513)	4,439,322	617,586	(1,710,605)	(4,866,284)	(2,958,243)	260,329	(7,564,198)
Net assets at beginning of year	167,017,410	11,209,595	3,075,401	181,302,406	171,883,694	14,167,838	2,815,072	188,866,604
Net assets at end of year	\$ 160,249,897	15,648,917	3,692,987	179,591,801	167,017,410	11,209,595	3,075,401	181,302,406

See accompanying notes to financial statements.

**COLUMBIA COLLEGE CHICAGO**

Statements of Cash Flows

Years ended August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,710,605)	(7,564,198)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Recognition of change in pension funded status	5,453,414	9,228,747
Depreciation	11,140,261	9,472,511
Amortization of bond issue costs	149,366	148,781
Donation of fixed assets and collections, net of costs	(1,053,532)	(180,950)
Net loss on investments	21,125,366	21,657,516
Loss on disposal of fixed assets	(3,120)	14,370
Gifts to endowment	(117,586)	(260,329)
Changes in assets and liabilities:		
Student accounts receivable	2,326,544	1,490,581
Other accounts and interest receivable	(22,042)	9,902
Deposits and prepaid expenses	(583,921)	(878,801)
Grants and contributions receivable	417,298	(515,691)
Accounts payable	(3,899,822)	4,056,210
Accrued expenses	290,259	1,379,791
Refundable deposits and deferred revenue	(27,095,069)	6,402,295
Accrued interest payable	(45,936)	545,261
Accrued pension cost	—	(3,737,797)
Change in asset retirement obligation	(13,902)	(344,637)
Net cash provided by operating activities	<u>6,356,973</u>	<u>40,923,562</u>
Cash flows from investing activities:		
Proceeds from sale of investments	14,385,199	49,784,814
Purchase of investments	(26,872,687)	(60,389,514)
Decrease (increase) in bond funds held in trust	29,313,809	(34,090,300)
Purchase of land, buildings, and equipment (net of nominal disposals)	(34,434,717)	(28,468,344)
Net cash used in investing activities	<u>(17,608,396)</u>	<u>(73,163,344)</u>
Cash flows from financing activities:		
Proceeds from gifts to endowment	117,586	260,329
Proceeds from sale of bonds	—	48,295,000
Payment of bond issue costs	—	(361,090)
Payment of bond insurance	—	(931,000)
Payment of underwriter discount	—	(233,007)
Discount on bond issue	—	(580,081)
Principal payments on long-term debt	(1,909,041)	(2,800,685)
Net cash provided by (used in) financing activities	<u>(1,791,455)</u>	<u>43,649,466</u>
Net increase (decrease) in cash and cash equivalents	(13,042,878)	11,409,684
Cash and cash equivalents at beginning of year	<u>47,636,856</u>	<u>36,227,172</u>
Cash and cash equivalents at end of year	<u>\$ 34,593,978</u>	<u>47,636,856</u>
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	\$ 4,656,306	4,336,865
Supplementary disclosures of noncash transactions:		
Donated fixed assets and collections	\$ 1,053,532	180,950
New capital leases	782,913	—

See accompanying notes to financial statements.

# COLUMBIA COLLEGE CHICAGO

## Notes to Financial Statements

August 31, 2009 and 2008

### (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) is 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

## COLUMBIA COLLEGE CHICAGO

### Notes to Financial Statements

August 31, 2009 and 2008

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 fund-raising 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 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 2009 and 2008) 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. See note 11 for additional information regarding the College's investment strategy and objectives.

**(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. Certain securities of a similar nature may be included in investments or bond funds held in trust because such instruments are held by the College for designated purposes.

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Notes to Financial Statements

August 31, 2009 and 2008

**(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 external investment manager. Each fund utilizes a unique investment strategy. Among these funds, the equities and the hedge funds (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 fund investments is determined based on valuations provided by the external investment managers. The fair value of the global equities is based on the underlying marketable securities. The valuations for these alternative investments necessarily involve estimates, appraisals, assumptions, and other analytical methods performed by investment managers and then reviewed and performed 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.

The College invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect amounts reported in the balance sheets.

**(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. The estimated useful lives are as follows:

Buildings	50 years
Building improvements	15 – 25 years
Library books	10 years
Furnishings and equipment	3 – 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 its 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

## COLUMBIA COLLEGE CHICAGO

### Notes to Financial Statements

August 31, 2009 and 2008

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 November 2008, the College finalized the purchase of land located at 1600 – 1632 S. State Street, Chicago, IL. The land will be used as the site for the construction of the College's Media Production Center.

**(h) Collections**

In 1997, the College began capitalizing its collections retroactively. 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.

During the year ended August 31, 2008, the College adopted Financing Accounting Standards Board (FASB) Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the application of SFAS No. 109, *Accounting for Income Taxes*, by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an organization's financial statements. At the date of adoption, and as of August 31, 2009, the College does not have a liability for unrecognized tax benefits, and there was no impact to the College's financial statements as a result of implementing FIN 48.

**(j) Conditional Asset Retirement Obligation**

The College has recorded a liability to recognize the estimated cost of conditional asset retirement obligations related to potential asbestos abatement. 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, 2009 and 2008, the College has recorded site improvements of \$943,378 and \$996,394; associated accumulated depreciation of \$345,854 and \$345,608; and an asset retirement obligation of \$2,547,036 and \$2,560,937, respectively.

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

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

## COLUMBIA COLLEGE CHICAGO

### Notes to Financial Statements

August 31, 2009 and 2008

maturity of the instrument. For fiscal year 2009, the College estimates the carrying value of its long-term debt exceeded fair market value by \$4,564,000 based upon the borrowing rates available to the College at August 31, 2009.

The College adopted FASB Statement No. 157, *Fair Value Measurements* (SFAS 157) as of September 1, 2008. The implementation did not require any new fair value measurements and there is no impact on the financial position of the College as a result of the implementation. SFAS 157 defines fair value as the price that could be received for an asset or paid to transfer a liability in the College's principal or most advantageous market of the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The College uses the following valuation techniques to measure the investment's fair value:

Level 1 consists of financial instruments, such as cash, mutual funds, stocks and money market funds whose value is based on quoted market prices published by a financial institution, exchange fund, exchange-trade instruments, and listed equities.

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Notes to Financial Statements

August 31, 2009 and 2008

Level 2 consists of investments for which there are no active markets. The College has classified its investment in the Alliance Bernstein Global Style Blend Trust fund (the Fund) as a Level 2 investment. The Fund invests primarily in equity securities of companies that are generally traded on recognized securities exchanges around the world. Although the Fund is not regularly traded in an open exchange, the underlying securities of the Fund are traded in recognized security exchanges throughout the world, and there are quoted prices available for these underlying securities.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Investments:			
Cash and cash equivalents	\$ 21,989,059	—	—
Fixed income mutual funds	16,143,587	—	—
Real estate investment trust	7,686,438	—	—
Common and collective trust	—	42,636,410	—
Bond funds held in trust	9,773,898	—	—
Total	<u>\$ 55,592,982</u>	<u>42,636,410</u>	<u>—</u>

**(l) Use of Estimates**

In order to prepare these financial statements, 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 reporting period. Actual results could differ from these estimates.

**(m) Reclassifications**

Certain 2008 balances have been reclassified in order to conform to 2009 presentation.

**(3) Grants and Contributions Receivable**

At August 31, 2009 and 2008, grants and contributions receivable were \$3,046,762 and \$3,464,060, respectively, net of discounts and allowances of \$223,047 for 2009 and \$215,664 for 2008. Of the amount outstanding at August 31, 2009, \$2,033,587 is expected to be collected within one year and \$1,013,175 is expected to be collected within two to five years.

**COLUMBIA COLLEGE CHICAGO**

Notes to Financial Statements

August 31, 2009 and 2008

**(4) Investments**

The investments at August 31, 2009 and 2008 consisted of the following:

	2009		2008	
	Cost	Fair value	Cost	Fair value
Long-term investments:				
Cash and cash equivalents	\$ 10,000,000	10,000,000	2,481	2,481
Real estate investment trusts	16,277,356	7,686,438	16,050,608	9,536,584
Fixed income mutual fund	16,111,827	16,143,587	15,271,131	14,906,805
Government obligation fund	11,989,059	11,989,059	—	—
Global equities fund	55,533,484	42,636,410	64,129,586	53,974,616
Hedge funds of funds	—	—	26,384,969	18,672,886
Total long-term investments	109,911,726	88,455,494	121,838,775	97,093,372
Bond funds held in trust – funds deposited with trustee for bond fund requirements	9,773,898	9,773,898	39,087,707	39,087,707
	<u>\$ 119,685,624</u>	<u>98,229,392</u>	<u>160,926,482</u>	<u>136,181,079</u>

Bond funds held in trust are invested in such short-term securities as U.S. Agency and U.S. Treasury investments.

The components of total investment return for 2009 and 2008 are reflected below:

	2009	2008
Interest income and dividends	\$ 3,074,775	4,567,331
Realized and unrealized gains (losses), net	(21,125,366)	(21,657,516)
Total return	<u>\$ (18,050,591)</u>	<u>(17,090,185)</u>

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

	2009	2008
Operating:		
Unrestricted	\$ 4,674,561	6,211,927
Nonoperating:		
Unrestricted	(22,815,854)	(23,369,832)
Temporarily restricted	90,702	67,720
Total return	<u>\$ (18,050,591)</u>	<u>(17,090,185)</u>

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Notes to Financial Statements

August 31, 2009 and 2008

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

Land, buildings, and equipment at August 31, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 20,158,172	20,158,172
Buildings and improvements	182,851,753	150,735,610
Furnishings and equipment	61,594,534	56,903,724
Library collections	10,074,604	9,352,766
Museum and art collections	10,762,175	9,630,206
Construction in process	19,916,102	24,399,857
	<u>305,357,340</u>	<u>271,180,335</u>
Less accumulated depreciation	<u>112,375,745</u>	<u>102,549,848</u>
	<u>\$ 192,981,595</u>	<u>168,630,487</u>

Outstanding commitments for construction contracts amounted to approximately \$6,500,000 at August 31, 2009. Construction in process includes capitalized interest of \$560,996 and \$693,371 for the years ended August 31, 2009 and 2008, respectively.

**(6) Long-Term Debt**

Long-term debt at August 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
IFA first mortgage notes:		
1998 Series issued February 11, 1998	\$ 15,875,000	17,060,000
2000 Series issued April 1, 2000	17,100,000	17,100,000
2003 Series issued October 15, 2003	20,120,000	20,990,000
2004 Series issued September 7, 2004	4,170,000	4,530,000
2007 Series issued September 13, 2007	48,295,000	48,295,000
Land trust note issued April 30, 1993	500,000	500,000
Capital lease obligation	782,913	276,954
	<u>106,842,913</u>	<u>108,751,954</u>
2007 Series discount	(690,650)	(563,122)
2003 and 2004 Series reoffering premium	712,655	758,730
	<u>\$ 106,864,918</u>	<u>108,947,562</u>

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Maturities of long-term debt outstanding at August 31, 2009 are as follows:

	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>Thereafter</u>	<u>Total</u>
IFA notes:							
1998 Series	\$ 1,245,000	1,305,000	1,365,000	1,430,000	1,500,000	9,030,000	15,875,000
2000 Series	—	—	—	—	—	17,100,000	17,100,000
2003 Series	910,000	945,000	980,000	1,025,000	1,070,000	15,190,000	20,120,000
2004 Series	375,000	390,000	415,000	435,000	460,000	2,095,000	4,170,000
2007 Series	—	—	—	—	—	48,295,000	48,295,000
Land trust note	—	—	—	—	—	500,000	500,000
Capital lease	153,011	159,086	165,403	171,970	133,443	—	782,913
	<u>\$ 2,683,011</u>	<u>2,799,086</u>	<u>2,925,403</u>	<u>3,061,970</u>	<u>3,163,443</u>	<u>92,210,000</u>	<u>106,842,913</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 are fixed rates ranging from 3.625% and 5.25%. 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, 2004, and 2007 bond indentures. These funds are maintained in trust by U.S. Bank and are invested in government securities (note 4). Income earnings from these funds are applied to interest payments.

In September 2007, the College issued \$48,295,000 of revenue bonds. The proceeds were used to finance the acquisition, renovation, and equipping of its educational facilities; fund debt service reserve as established by the bond's trust indenture; and to pay certain costs of the issuance of the bonds. The payment and interest on the bonds is guaranteed by a financial guaranty bond insurance policy issued by MBIA Insurance Corporation. The bonds are fixed rate instruments with interest rates ranging from 5.00% to 5.25%, and maturing on December 1, 2037.

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 (5.0% at August 31, 2009) in effect at the time of use. Draws on the agreement and letter of credit are payable in quarterly installments over the remaining life of the agreement commencing on the first quarterly date within 60 days after the letter of credit is used. As of August 31, 2009, no amounts have been drawn on the letter of credit. The letter of credit is valid through April 10, 2011. 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 as of August 31, 2009.

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

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property is approximately \$5.3 million at August 31, 2009. 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. Future minimum lease payments as of August 31, 2009 are as follows:

	<u>Annual lease payment</u>
Year:	
2010	\$ 562,800
2011	562,800
2012	562,800
2013	562,800
2014	<u>422,100</u>
Total	2,673,300
Less imputed interest	<u>(1,890,387)</u>
Present value of lease	<u><u>\$ 782,913</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.

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.

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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, 2009 and 2008, as determined at the measurement dates of August 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 44,493,716	43,417,491
Interest cost	2,479,871	2,473,652
Actuarial gain	(929,908)	(467,091)
Benefits paid	<u>(2,280,365)</u>	<u>(930,336)</u>
Benefit obligation at end of year	<u>43,763,314</u>	<u>44,493,716</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	36,386,308	41,753,529
Actual loss on plan assets	(6,515,808)	(6,165,027)
Employer contributions	3,500,000	2,200,000
Benefits paid	<u>(2,280,365)</u>	<u>(930,336)</u>
Fair value of plan assets at end of year	<u>31,090,135</u>	<u>36,858,166</u>
Funded status recognized on the balance sheet	\$ <u><u>(12,673,179)</u></u>	<u><u>(7,635,550)</u></u>

The accumulated benefit obligation for the plan was \$43,763,314 and \$44,493,716 at August 31, 2009 and 2008, respectively.

Net periodic pension cost for the plan for the fiscal years ended August 31, 2009 and 2008 included the following components:

	<u>2009</u>	<u>2008</u>
Interest cost on projected benefit obligation	\$ 2,479,871	2,473,652
Expected return on plan assets	(2,727,963)	(3,106,226)
Net amortization and deferral	<u>1,218,134</u>	<u>584,232</u>
Net periodic pension cost	\$ <u><u>970,042</u></u>	<u><u>(48,342)</u></u>

A discount rate of 6.0% was used in determining the actuarial present value of the projected benefit obligations for fiscal years 2009 and 2008. The expected long-term rate of return on assets was 7.5% for fiscal years 2009 and 2008, and is based on analysis of historical rates of return. Because the plan is frozen and new benefits are not accruing, the projected salary increase to normal retirement age for all employees for fiscal years 2009 and 2008 was 0%.

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Weighted average asset allocation by asset category is as follows:

	<u>2009</u>	<u>2008</u>
Global equities	47%	49%
Fixed income	16	19
Alternatives	—	19
Real estate	14	10
Cash and cash equivalents	23	3
	<u>100%</u>	<u>100%</u>

The 2009 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. In July 2009, the College liquidated its position in the alternative investments and is in the process of reallocating to new alternative investment managers.

The College expects to make a contribution of \$3,500,000 to the plan during fiscal year 2010.

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>
2010	\$ 1,152,403
2011	1,338,896
2012	1,536,717
2013	1,661,419
2014	1,930,345
2015 – 2020	13,979,085

**(b) Columbia College Employees' Retirement Plan**

In fiscal year 2009, the College terminated and paid out all benefits of its second defined benefit pension plan, the Columbia College Employees' Retirement Plan. On May 2008, the College received a favorable determination letter from the Internal Revenue Service (IRS) indicating that the termination of the plan does not adversely affect its exemption from tax under the applicable provisions of the Internal Revenue Code. As of December 31, 2008, all plan participants received their accumulated benefits as calculated by the College's actuary in accordance with IRS plan termination rules and requirements, and the plan was dissolved. Consequently, there are no plan assets or liabilities as of August 31, 2009.

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

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

The following table sets forth the funded status and amounts recognized in the College's financial statements for the Columbia College Employees' Retirement Plan at August 31, 2009 and 2008 as determined at the August 31, 2009 and 2008 measurement dates:

	<b>2009</b>	<b>2008</b>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 9,089,407	8,958,926
Interest cost	—	493,797
Actuarial loss	946,071	169,950
Benefits paid	(10,035,478)	(533,266)
Benefit obligation at end of year	—	9,089,407
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	9,505,193	8,894,074
Actual gain (loss) on plan assets	530,285	(355,615)
Employer contributions	—	1,500,000
Benefits paid	(10,035,478)	(533,266)
Fair value of plan assets at end of year	—	9,505,193
Funded status recognized on balance sheet	\$ —	415,786

The accumulated benefit obligation for the plan was \$0 and \$9,089,407 at August 31, 2009 and 2008, respectively.

Net periodic pension cost for the plan for the fiscal years ended August 31, 2009 and 2008 included the following components:

	<b>2009</b>	<b>2008</b>
Interest cost on projected benefit obligation	\$ —	493,797
Expected return on plan assets	—	(642,302)
Net amortization and deferral	—	159,050
Net periodic pension cost	\$ —	10,545

A discount rate of 6.0% was used in determining the actuarial present value of the projected benefit obligations for fiscal year 2008. The expected long-term rate of return on assets was 7.5% for fiscal year 2008, and is based on analysis of historical rates of return. The projected salary increase to normal retirement age for all employees for fiscal year 2008 was 0%.

Because the plan has been dissolved, the College does not expect to make a contribution to the plan during fiscal year 2010.

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

Effective January 1, 2003, the College instituted 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 \$4,669,000 and \$4,238,000 during fiscal years 2009 and 2008, respectively.

(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:

2010	\$	21,945,517
2011		5,922,106
2012		6,102,156
2013		1,390,539
2014		1,297,455
Thereafter		6,502,509
	\$	<u>43,160,282</u>

Property and equipment rental expense was approximately \$24,521,610 and \$22,928,024 for fiscal years 2009 and 2008, respectively.

At August 31, 2009, future minimum rental income for space leased to others is as follows:

2010	\$	325,469
2011		29,808
2012		4,308
	\$	<u>359,585</u>

(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 \$13.2 million (including approximately \$3.4 million for the College's share of the

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residential life and meal plan expenses) toward its maximum rental liability in connection with its lease of 963 beds in fiscal year 2010. This lease obligation of \$9.8 million is reflected in the aforementioned future minimum lease payments. Subsequent to fiscal year 2010, 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's financial statements are not combined with the College's financial statements. In its July 31, 2009 unaudited financial statements, the latest statements for EAF, EAF reported assets, liabilities, and net deficit of \$144,022,965; \$153,674,285; and \$(9,651,320), respectively, which included bonds payable net of discounts of \$149,387,478. Additionally, EAF had operating revenue and expenses of \$28,045,508 and \$25,493,867, respectively, for the year ended July 31, 2009.

**(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, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Gifts and other unexpended resources available for:		
Academic programs	\$ 1,474,635	834,881
Scholarships and fellowships	7,013,017	4,892,180
Community programs	1,331,168	1,650,302
Facility	7,918,067	3,832,232
	<u>17,736,887</u>	<u>11,209,595</u>
Total temporarily restricted net assets	\$ <u>17,736,887</u>	<u>11,209,595</u>

Permanently restricted net assets consist of endowment funds at August 31, 2009 and 2008. The income earned on the investment of permanently restricted net assets is generally available for use in providing scholarships and supporting the College's educational programs.

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**(10) Expenses by Functional Classifications**

The following is a summary of total expenses classified by function for fiscal years 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Program:		
Instruction	\$ 120,983,705	111,405,784
Research	4,509,854	4,253,430
Public service	6,733,201	8,246,635
Library and other academic support	22,270,129	20,517,359
Student services	22,844,254	23,032,163
Auxiliary enterprises	31,907,741	29,360,107
Total program services	209,248,884	196,815,478
Support:		
Institutional support	8,562,019	7,331,298
Fund-raising	5,065,026	4,844,734
Total support services	13,627,045	12,176,032
Total expenses	\$ 222,875,929	208,991,510

**(11) Net Asset Classification of Funds and Enhanced Disclosures for Endowment**

Effective September 1, 2008, the College adopted the provisions of FASB Staff Position No. 117-1, *Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosed for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2009 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The College's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**(a) Interpretation of Relevant Law**

On June 30, 2009, the State of Illinois adopted UPMIFA. The Board of Trustees of the College has interpreted the State of Illinois UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

The total long-term investments reported on the balance sheet include true-endowments, funds functioning-as-endowment and expendable gifts. Endowment net assets as reportable per FSP 117-1 exclude the expendable gifts included in the long-term investments.

Endowment net assets consist of the following at August 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (672,259)	252,778	3,692,987	3,273,506
Board-designated endowment funds	<u>80,349,296</u>	<u>—</u>	<u>—</u>	<u>80,349,296</u>
Total endowment net assets	\$ <u>79,677,037</u>	<u>252,778</u>	<u>3,692,987</u>	<u>83,622,802</u>

Endowment net assets consist of the following at August 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	—	3,075,401	3,075,401
Board-designated endowment funds	<u>89,185,278</u>	<u>—</u>	<u>—</u>	<u>89,185,278</u>
Total endowment net assets	\$ <u>89,185,278</u>	<u>—</u>	<u>3,075,401</u>	<u>92,260,679</u>

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Changes in endowment net assets for the year ended August 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, September 1, 2008	\$ 89,185,278	—	3,075,401	92,260,679
Investment return:				
Investment income	1,961,964	—	—	1,961,964
Net depreciation (realized and unrealized)	<u>(20,587,115)</u>	<u>—</u>	<u>—</u>	<u>(20,587,115)</u>
Total investment return	(18,625,151)	—	—	(18,625,151)
Contributions	—	—	117,586	117,586
Net asset reclassification based on law change	(252,778)	252,778	—	—
Net asset reclassification to comply with matches	(500,000)	—	500,000	—
Transfers to create board-designated funds	9,869,688	—	—	9,869,688
Appropriations of endowment assets for expenditure	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Endowment net assets, August 31, 2009	\$ <u>79,677,037</u>	<u>252,778</u>	<u>3,692,987</u>	<u>83,622,802</u>

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Changes in endowment net assets for the year ended August 31, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, September 1, 2007	\$ 100,242,183	—	2,815,072	103,057,255
Investment return:				
Investment income	1,463,542	—	—	1,463,542
Net depreciation (realized and unrealized)	<u>(21,068,666)</u>	<u>—</u>	<u>—</u>	<u>(21,068,666)</u>
Total investment return	(19,605,124)	—	—	(19,605,124)
Contributions	—	—	260,329	260,329
Transfers to create board-designated funds	8,548,219	—	—	8,548,219
Appropriations of endowment assets for expenditure	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Endowment net assets, August 31, 2008	<u>\$ 89,185,278</u>	<u>—</u>	<u>3,075,401</u>	<u>92,260,679</u>

**(b) Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the UPMIFA requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$672,000 as of August 31, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new restricted contributions. Subsequent gains that restore the fair value of the assets to the required level will be classified as an increase in unrestricted net assets.

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**(c) *Return Objective and Risk Parameters***

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a balanced benchmark index comprised of 70% S&P 500 and 30% Lehman Brothers Aggregate Bond Index, while assuming a risk level that is consistent with the risk associated with the above benchmark. Based on the investment policy, the College expects its endowment funds, over its stated investment horizon of 10 years, to provide an average annual real rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount.

**(d) *Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis on investments in global equities, absolute return strategies, bonds and real estate.

**(e) *Spending Policy and How the Investment Objectives Relate to Spending Policy***

The purpose of endowment funds is to facilitate donor's desires to make substantial long-term gifts to the College and to develop a new and significant source of revenue to the College. In doing so, the endowment will provide a secure, long-term source of funds to: (a) fund special programs; (b) ensure long-term growth, and (c) support the administrative expenses of the College as deemed appropriate.

To achieve these goals, the College has a policy of appropriating for distribution each year 5% of its endowment funds' average fair value using the 3 years prior to the budget year. Under the policy adopted by the College, interest, dividends, and appreciation on investments held in the investment pool are made available for spending. The Board of Trustees set the endowment distribution at \$4,100,000 for fiscal year 2009 and \$3,700,000 for fiscal year 2008.

**(12) *Subsequent Event***

We have evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through December 9, 2009, the day the financial statements were issued.