COLUMBIA COLLEGE CHICAGO

Financial Statements

August 31, 2013 and 2012

(With Independent Auditors’ Report Thereon)

COLUMBIA COLLEGE CHICAGO

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KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Trustees
Columbia College Chicago:

We have audited the accompanying financial statements of Columbia College Chicago (the College), which comprise the balance sheets as of August 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
December 12, 2013

COLUMBIA COLLEGE CHICAGO

Balance Sheets

August 31, 2013 and 2012

Assets		2013	2012
Cash and cash equivalents	$	45,910,402	49,708,399
Student accounts receivable, less allowance for doubtful accounts of approximately $22,440,000 in 2013 and $21,947,000 in 2012		3,816,076	3,858,710
Other accounts and interest receivable, net		307,923	567,864
Deposits and prepaid expenses		4,656,945	3,925,357
Grants and contributions receivable, net		8,012,372	4,600,710
Investments		142,245,148	112,333,798
Bond funds held in trust		6,936,563	6,936,295
Unamortized bond issue costs		2,459,140	2,620,826
Land, buildings, and equipment, net		220,315,587	219,989,536
Total assets	$	434,660,156	404,541,495
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	8,354,917	8,229,520
Accrued expenses		12,841,142	11,174,558
Refundable deposits and deferred revenue		24,034,596	18,633,460
Accrued interest payable		968,050	1,005,338
Accrued pension cost		16,073,707	22,966,894
Asset retirement obligation		2,632,360	2,507,009
Long-term debt		95,725,100	98,611,162
Total liabilities		160,629,872	163,127,941
Commitments and contingencies			
Net assets:			
Unrestricted		259,224,020	226,641,221
Temporarily restricted		10,548,103	10,570,410
Permanently restricted		4,258,161	4,201,923
Total net assets		274,030,284	241,413,554
Total liabilities and net assets	$	434,660,156	404,541,495

See accompanying notes to financial statements.

COLUMBIA COLLEGE CHICAGO

Statements of Activities

Years ended August 31, 2013 and 2012

	2013				2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Operating activities:								
Revenue:								
Tuition and fees, net of $24,298,000 and $19,665,000 in tuition allowances	$ 186,971,495	—	—	186,971,495	199,017,318	—	—	199,017,318
Student housing, net of $430,000 and $551,000 in room allowances	25,231,085	—	—	25,231,085	28,148,596	—	—	28,148,596
Sales and services	3,748,841	—	—	3,748,841	4,389,848	—	—	4,389,848
Private gifts and grants	585,662	2,283,938	—	2,869,600	310,473	2,884,028	—	3,194,501
Government grants and contracts	9,134,891	—	—	9,134,891	8,056,500	—	—	8,056,500
Investment return for operations	227,530	—	—	227,530	39,345	—	—	39,345
Other	306,878	—	—	306,878	1,710,730	—	—	1,710,730
Net assets released from restrictions	2,804,453	(2,804,453)	—	—	3,936,602	(3,936,602)	—	—
Total operating revenue	229,010,835	(520,515)	—	228,490,320	245,609,412	(1,052,574)	—	244,556,838
Expenses:								
Salaries and wages	102,396,456	—	—	102,396,456	101,345,871	—	—	101,345,871
Employee benefits	32,347,649	—	—	32,347,649	30,767,482	—	—	30,767,482
Supplies and services	32,029,579	—	—	32,029,579	32,838,648	—	—	32,838,648
Operation and maintenance of plant	37,610,348	—	—	37,610,348	43,257,613	—	—	43,257,613
Interest	4,165,133	—	—	4,165,133	4,298,280	—	—	4,298,280
Depreciation and amortization	13,497,338	—	—	13,497,338	13,138,920	—	—	13,138,920
Total operating expenses	222,046,503	—	—	222,046,503	225,646,814	—	—	225,646,814
Operating revenue in excess of operating expenses	6,964,332	(520,515)	—	6,443,817	19,962,598	(1,052,574)	—	18,910,024
Nonoperating activities:								
Investment return, less amounts for operations	14,119,384	517,408	—	14,636,792	5,227,293	415,341	—	5,642,634
Capital gifts for facilities and collections	757,169	36,708	—	793,877	278,824	63,704	—	342,528
Gifts to permanently restricted funds	—	—	56,062	56,062	—	—	281,519	281,519
Nonoperating other income	980,217	—	—	980,217	679,733	—	—	679,733
Gain on disposal of equipment	3,750	—	—	3,750	592,797	—	—	592,797
Loss on extinguishment of debt	—	—	—	—	—	—	—	—
Recognition of change in pension funded status	9,702,215	—	—	9,702,215	(11,373,994)	—	—	(11,373,994)
Net assets released from restrictions for capital	—	—	—	—	—	—	—	—
Change in fund designation	55,732	(55,908)	176	—	(127,129)	96,281	30,848	—
Change in net assets	32,582,799	(22,307)	56,238	32,616,730	15,240,122	(477,248)	312,367	15,075,241
Net assets at beginning of year	226,641,221	10,570,410	4,201,923	241,413,554	211,401,099	11,047,658	3,889,556	226,338,313
Net assets at end of year	$ 259,224,020	10,548,103	4,258,161	274,030,284	226,641,221	10,570,410	4,201,923	241,413,554

See accompanying notes to financial statements.

COLUMBIA COLLEGE CHICAGO

Statements of Cash Flows

Years ended August 31, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	32,616,730	15,075,241
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Recognition of change in pension funded status		(6,893,187)	9,511,354
Depreciation and amortization of bond issue costs		13,497,338	13,138,920
Donation of fixed assets and collections, net of costs		(757,169)	(278,824)
Capital gifts for facilities and collections		(36,708)	(63,704)
Net gain on investments		(15,126,223)	(5,504,543)
Gain on disposal of fixed assets		(3,750)	(592,797)
Gifts to endowment		(56,062)	(281,519)
Capitalization of imputed income		—	(969,917)
Changes in assets and liabilities:			
Student accounts receivable		42,634	(607,864)
Other accounts and interest receivable		259,941	200,185
Deposits and prepaid expenses		(731,588)	818,212
Grants and contributions receivable		(3,411,662)	180,958
Accounts payable		125,397	452,306
Accrued expenses		1,666,584	53,948
Refundable deposits and deferred revenue		5,401,135	(2,566,985)
Accrued interest payable		(37,288)	16,781
Change in asset retirement obligation		125,351	119,382
Net cash provided by operating activities		26,681,473	28,701,134
Cash flows from investing activities:			
Proceeds from sale of investments		6,599,774	11,517,738
Purchase of investments		(21,384,900)	(11,793,608)
Proceeds from sale of land, buildings, and equipment		—	2,853,318
Purchase of land, buildings, and equipment (net of nominal disposals)		(12,721,650)	(16,089,028)
Net cash used in investing activities		(27,506,776)	(13,511,580)
Cash flows from financing activities:			
Proceeds from gifts to endowment		56,062	281,519
Proceeds from capital gifts for facilities and collections		36,708	63,704
Increase in bond funds held in trust		(268)	(272)
Payments on capital lease obligation		(190,196)	(143,371)
Principal payments on long-term debt		(2,875,000)	(2,745,000)
Net cash used in financing activities		(2,972,694)	(2,543,420)
Net (decrease) increase in cash and cash equivalents		(3,797,997)	12,646,134
Cash and cash equivalents at beginning of year		49,708,399	37,062,265
Cash and cash equivalents at end of year	$	45,910,402	49,708,399
Supplementary disclosure of cash flow information:			
Cash paid during the year for interest	$	3,929,394	4,070,193
Supplementary disclosures of noncash transactions:			
Donated fixed assets and collections	$	757,169	278,824

See accompanying notes to financial statements.

(1) 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 from the Chicago area, across the United States and internationally.

(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 by either 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 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 use restrictions are reported as revenue of the temporarily restricted net asset class; the restrictions are considered to be released at the time such long-lived assets are placed into service.

Revenue from tuition and fees is reported in the year in which the educational programs are conducted. Deferred revenue includes 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 2013 and 2012) 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, physical plant, or certain pension changes.

(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.

(f) 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 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.

(g) 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.

(h) Income Taxes

The College has received a determination letter from the Internal Revenue Service (IRS) 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. In accordance with U.S. generally accepted accounting principles (GAAP), the College recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Based upon this practice the College, as of August 31, 2013 and 2012, has not recorded a liability for unrecognized tax benefits.

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(i) ***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, 2013 and 2012, the College has recorded site improvements of $682,946 and $821,125; associated accumulated depreciation of $259,567 and $315,213; and an asset retirement obligation of $2,632,360 and $2,507,009, respectively.

(j) ***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 maturity of the instrument. For fiscal year 2013, the College estimates the carrying value of its long-term debt exceeds the fair market value by $3,021,138. For fiscal year 2012, the College estimates the carrying value of its long-term debt was less than the fair market value by $(3,372,953). These estimates are based upon the borrowing rates available to the College at August 31. The College's debt is considered to be a Level 2 fair value measurement.

The College follows the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, the official pronouncement for fair value measurements for financial instruments. The pronouncement defines fair value as the price that could be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market of the asset or liability in an orderly transaction between market participants on the measurement date.

The pronouncement also establishes a fair value hierarchy that 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 classification of the instrument as a Level 2 or 3 is based on the College's ability to redeem its interest at or near the date of the balance sheet. If the investment can be redeemed in the near term, the instrument is classified as Level 2.

As a practical expedient, the College estimates the fair value of an investment in certain entities that calculate net asset value per share (or its equivalent) using the net asset value per share of the investment (or its equivalent, such as member units or an ownership interest in partner's capital to which a proportionate share of net assets is attributed) as of the College's fiscal year-end. Using this approach, the fair value of the instruments does not include certain attributes that may impact the final value of the investments, such as restrictions on redemption and transaction prices for principal-to-principal and brokered transactions.

(k) New Accounting Pronouncements

In May 2011, Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, was issued to amend FASB ASC Topic 820. This update changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Some of the amendments within the update also clarify the application of existing fair value measurement requirements and change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The College adopted this amendment in fiscal year 2013.

(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.

(3) Grants and Contributions Receivable

At August 31, 2013 and 2012, grants and contributions receivable were $8,012,372 and $4,600,710, respectively, net of discounts of $47,916 and allowances of $186,932 for fiscal year 2013 and discounts of $151,247 and allowances of $37,129 for fiscal year 2012. Of the amount outstanding at August 31, 2013, $7,311,227 is expected to be collected within one year, $645,790 is expected to be collected within two to five years, and $55,355 is expected to be collected after five years.

(4) Investments

Investments are stated at fair value as of the Balance Sheet date. The fair value of investments is based upon quoted market prices when available. However, the investments also include certain instruments where quoted market prices may not be available. For these instruments, the College has applied a practical expedient and concluded that the net asset value reported by each underlying fund approximates the fair value of the investments. The valuations for these investments involve estimates, appraisals, assumptions, and other analytical methods performed by investment managers and then reviewed by the College and the College's investment consultant.

The College's interests in alternative investment funds such as hedged equities, real assets, and absolute return, are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of August 31, 2013 and 2012, the College had no plans to sell investments at amounts different from NAV.

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

Investment income, gains and losses, and any investment-related expenses are recorded as an increase (decrease) in unrestricted net assets in the statements 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 investments, including cash and cash equivalents, and bond funds held in trust, at August 31, 2013 and 2012 are comprised of the following:

	2013				Redemption	Days'
	Level 1	**Level 2**	**Level 3**	**Total**	**or liquidity**	**notice**
Cash and cash equivalents	$ 45,910,402	—	—	45,910,402	Daily	1
Bond Funds Held in Trust	6,936,563	—	—	6,936,563	Daily	1
Investments:						
Domestic equities [(a)]	22,217	23,261,754	—	23,283,971	Monthly	10
International equities [(b)]	—	34,164,384	—	34,164,384	Monthly	30
Fixed income [(c)]	30,608,994	3,551,723	—	34,160,717	Daily	1
Hedge funds:						
Multistrategy: absolute return [(d)]	—	12,642,346	—	12,642,346	Quarterly	70
Multistrategy: absolute return	—	2,258,664	4,517,328	6,775,992	Quarterly (1)	90
Multistrategy: absolute return	—	—	13,216,823	13,216,823	Annual	90
Hedged equities [(e)]	—	7,311,743	—	7,311,743	Quarterly	45
Hedged equities	—	5,785,800	—	5,785,800	SemiAnnual	60
Multistrategy: real assets [(f)]	—	4,903,372	—	4,903,372	Quarterly	60
Total	$ 83,478,176	93,879,786	17,734,151	195,092,113		

	2012					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption or liquidity**	**Days' notice**
Cash and cash equivalents	$ 49,708,399	—	—	49,708,399	Daily	1
Bond Funds Held in Trust	6,936,295	—	—	6,936,295	Daily	1
Investments:						
Domestic equities [a]	16,417	24,568,131	—	24,584,548	Monthly	10
International equities [b]	—	27,344,185	—	27,344,185	Monthly	30
Fixed income [c]	12,307,788	1,799,267	—	14,107,055	Daily	1
Hedge funds:						
Multistrategy: absolute return [d]	—	11,212,095	—	11,212,095	Quarterly	70
Multistrategy: absolute return	—	2,211,752	4,423,503	6,635,255	Quarterly (1)	90
Multistrategy: absolute return	—	—	11,805,870	11,805,870	Annual	90
Hedged equities [e]	—	6,791,555	—	6,791,555	Quarterly	45
Hedged equities	—	4,727,900	—	4,727,900	SemiAnnual	60
Multistrategy: real assets [f]	—	5,125,335	—	5,125,335	Quarterly	60
Total	$ 68,968,899	83,780,220	16,229,373	168,978,492		

(1) Withdrawals are limited to a maximum of 1/3 of the total investment value in each rolling twelve-month period in the three years following the end of the lock-up, which expired on January 1, 2011.

(a) Includes investments in U.S. common stocks and funds that invest long in U.S. stocks and includes small to large capitalization stocks. Management of the fund has the ability to shift investments from value to growth strategies. The fair values of the investments in this category have been estimated using the NAV per share of the investments.

(b) Includes investments in non-U.S. common stocks and funds that invest long in non-U.S. stocks and includes small to large capitalization stocks. Management of the funds has the ability to shift investments from value to growth strategies. The fair values of the investments in this category have been estimated using the NAV per share of the investments.

(c) Includes investments in fixed income securities and funds that invest in fixed income securities. Management of the funds has the ability to shift investments from value to growth strategies. Fixed income securities are valued using quoted prices in active markets, when available. To the extent quoted prices are not available, fair value is determined based on broker-dealer quotes, interest rate volatilities, spreads, and other relationships observed in the markets among comparable securities and various yield measures. The fair values of the funds that invest in fixed income securities have been estimated using the NAV per share of the investments.

(d) Includes multistrategy absolute return investments designed to diversify risks and reduce volatility. The managers pursue investment opportunities that are event-driven, and focus on corporations that are the subject of proposed changes in the corporate structure or control such as mergers and acquisitions, spin-offs, recapitalizations, and voluntary and involuntary liquidations. The fund managers are allowed to invest in global markets and may include securities issued by the U.S. government and non-U.S. sovereign jurisdictions, corporate debt, equities, commodities, real-estate, foreign currency forward contracts, derivatives, swaps, and other structured products. The fair value of these investments has been estimated using the NAV of the College's ownership interest in these funds.

(e) Includes investments in funds that invest both long and short in U.S. and non-U.S. markets. Management of the funds has the ability to invest across all sectors and market capitalizations, and to shift investments between value and growth. The fair value of these investments has been estimated using the NAV of the College's ownership interest in these funds.

(f) Includes investments in commodities, energy, precious metals, industrial metals, agriculture, and livestock. Management of the funds has the ability to invest in securities, futures contracts, debt instruments, real estate, and warrants in U.S. and non-U.S. markets. The fair values of the investments in this category have been estimated using the NAV of the College's ownership interest in these funds.

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended August 31, 2013 and 2012. At the end of each reporting period transfers between Levels 2 and 3 occur based on changes in observable market data, or changes of restrictions that impact the liquidity of the investments.

The College's policy is to record transfers of investments between Level 2 and Level 3 at their fair values as of the end of each reporting period. In fiscal year 2012, hedged equities investments were transferred from Level 3 to Level 2, as the lock-up period expired during the fiscal year, and the investments may be redeemed in the near term. In fiscal year 2012, multistrategy absolute return investments were transferred from Level 2 to Level 3, as the investments may not be redeemed in the near term.

	Balance as of August 31, 2012	Purchases	Sales	Net realized and unrealized gains (losses)	Transfer to Level 2	Transfer from Level 2	Balance as of August 31, 2013
Level 3 investments:							
Multistrategy: absolute return	$ 16,229,373	—	—	1,504,778	—	—	17,734,151
Total	$ 16,229,373	—	—	1,504,778	—	—	17,734,151

	Balance as of August 31, 2011	Purchases	Sales	Net realized and unrealized gains (losses)	Transfer to Level 2	Transfer from Level 2	Balance as of August 31, 2012
Level 3 investments:							
Multistrategy: absolute return	$ 9,984,857	—	—	367,122	—	5,877,394	16,229,373
Hedged equities	4,549,900	—	—	178,000	(4,727,900)	—	—
Total	$ 14,534,757	—	—	545,122	(4,727,900)	5,877,394	16,229,373

The components of total investment return are reflected below:

		2013	2012
Interest income and dividends net of fees	$	(261,901)	177,436
Realized and unrealized gains, net		15,126,223	5,504,543
Total return	$	14,864,322	5,681,979

(5) Land, Buildings, and Equipment

Land, buildings, and equipment at August 31, 2013 and 2012 are comprised of the following:

		2013	2012
Land	$	24,618,542	24,618,542
Buildings and improvements		247,893,670	241,028,738
Furnishings and equipment		76,340,104	72,803,264
Library collections		12,250,922	11,933,511
Museum and art collections		12,844,313	12,001,116
Construction in process		7,919,063	5,807,027
		381,866,614	368,192,198
Less accumulated depreciation		161,551,027	148,202,662
	$	220,315,587	219,989,536

Outstanding commitments for construction contracts amounted to approximately $2,154,555 and $2,456,449 at August 31, 2013 and 2012, respectively.

(6) Long-Term Debt

Long-term debt at August 31, 2013 and 2012 is as follows:

	2013	2012
IFA first mortgage notes:		
2000 Series issued April 1, 2000	$ 17,100,000	17,100,000
2003 Series issued October 15, 2003	16,260,000	17,285,000
2004 Series issued September 7, 2004	2,555,000	2,990,000
2007 Series issued September 13, 2007	48,295,000	48,295,000
2011 Series issued May 25, 2011	10,185,000	11,600,000
Land trust note issued April 30, 1993	500,000	500,000
Capital lease obligation	492,041	327,445
	95,387,041	98,097,445
2007 Series discount	(475,403)	(492,946)
2003 and 2004 Series reoffering premium	528,354	574,428
2011 Series premium	285,108	432,235
	$ 95,725,100	98,611,162

Maturities of long-term debt outstanding at August 31, 2013 are as follows:

	FY2014	FY2015	FY2016	FY2017	FY2018	Thereafter	Total
IFA notes:							
2000 Series	$ —	—	—	—	—	17,100,000	17,100,000 *
2003 Series	1,070,000	1,120,000	1,175,000	1,245,000	1,310,000	10,340,000	16,260,000
2004 Series	460,000	485,000	510,000	535,000	565,000	—	2,555,000
2007 Series	—	—	—	—	—	48,295,000	48,295,000
2011 Series	1,485,000	1,560,000	1,620,000	1,710,000	1,795,000	2,015,000	10,185,000
Land trust note	—	—	—	—	—	500,000	500,000
Capital lease	262,149	118,110	111,782	—	—	—	492,041
	$ 3,277,149	3,283,110	3,416,782	3,490,000	3,670,000	78,250,000	95,387,041

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, except for the 2000 Series, are fixed rates ranging from 3.625% to 5.250%. 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 2003, 2004, 2007, and 2011 bond indentures. These funds are maintained in trust by U.S. Bank and are invested in government securities. Income earnings from these funds are applied to interest payments.

* Included in long-term debt is $17,100,000 of general obligation variable rate demand bonds, maturing on June 30, 2030. The bonds are marketed weekly by a remarketing agent, and the interest rate is reset each week based on current market conditions. The interest rates for the weeks ending August 31, 2013 and 2012 were 0.04% and 0.14%, respectively. 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 reimbursement agreement is $17,263,973 at August 31, 2013 and 2012 and carries an interest rate equal to the prime rate (3.25% at August 31, 2013 and 3.25% at August 31, 2012) in effect at the time of use. The reimbursement agreement and letter of credit are for a three-year term and are renewed annually. The reimbursement 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, 2013 and 2012, no amounts have been drawn on the letter of credit. The letter of credit is valid through April 10, 2014. 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, 2013 and 2012.

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 $4.6 million and $4.8 million at August 31, 2013 and 2012, respectively. 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 and high-definition television equipment, which are considered capital leases. Future minimum lease payments as of August 31, 2013 are as follows:

		Annual lease payment
Year:		
2014	$	272,954
2015		123,204
2016		113,412
Total		509,570
Less imputed interest		(17,529)
Present value of lease	$	492,041

(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 IRS, indicating that the plan is exempt from tax under the applicable provisions of the Internal Revenue Code.

On May 7, 2003, all eligible employees were given notice, as required by Section 204(h) of the Employee Retirement Income Security Act of 1974, that the plan was amended to end all benefit accruals effective June 23, 2003, prior to the accumulation of an additional benefit accrual earned for the 2003 calendar year. Therefore, the pension plan was effectively frozen at the amounts determined as of December 31, 2002.

The following table sets forth the Columbia College Pension Plan's funded status and amounts recognized in the College's financial statements at August 31, 2013 and 2012, as determined at the measurement dates of August 31, 2013 and 2012:

		2013	2012
Change in benefit obligation:			
Benefit obligation at beginning of year	$	65,320,656	51,500,982
Interest cost		2,460,059	2,631,151
Actuarial loss (gain)		(8,261,723)	14,139,287
Benefits paid		(1,794,568)	(2,950,764)
Benefit obligation at end of year		57,724,424	65,320,656
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year		42,353,762	38,045,442
Actual gain (loss) on plan assets		(908,477)	1,459,084
Employer contributions		2,000,000	5,800,000
Benefits paid		(1,794,568)	(2,950,764)
Fair value of plan assets at end of year		41,650,717	42,353,762
Funded status recognized on the balance sheets	$	(16,073,707)	(22,966,894)

The accumulated benefit obligation for the plan was $57,724,424 and $65,320,656 at August 31, 2013 and 2012, respectively.

Net periodic pension cost for the plan for the fiscal years ended August 31, 2013 and 2012 included the following components:

		2013	2012
Interest cost on projected benefit obligation	$	2,460,059	2,631,151
Expected return on plan assets		(840,850)	(785,123)
Net amortization and deferral		3,189,819	2,091,332
Net periodic pension cost	$	4,809,028	3,937,360

Discount rates of 4.86% and 3.83% were used in determining the actuarial present value of the projected benefit obligations for fiscal years 2013 and 2012, respectively. The expected long-term rate of return on assets was 2.0% for fiscal years 2013 and 2012, and is based on analysis of actual and projected 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 2013 and 2012 was 0%.

Weighted average asset allocation by asset category is as follows:

	2013	2012
Fixed income	100%	100%

In fiscal year 2009, the College revised the investment strategy for the pension fund investments. The revised strategy redefined the asset allocation to include only fixed income and cash investments. The new asset allocation permits an allocation in the range of 90% – 100% for fixed income investments, and permits an allocation of 0% – 10% for cash investments. During fiscal year 2010, a new investment manager was selected and the assets were invested according to the new policy. The plan's investments are all Level 1 investments and are stated at fair value as of the fiscal year-end. The fair value of the investments is based upon quoted market prices.

The College expects to make a contribution of $3,000,000 to the plan during fiscal year 2014.

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

Fiscal year(s)	Amount
2014	$ 1,769,145
2015	2,068,085
2016	2,441,674
2017	2,698,656
2018	3,055,821
2019 – 2024	18,631,174

(b) 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 $5,056,974 and $5,074,000 during fiscal years 2013 and 2012, respectively, which are reported in employee benefit expenses.

(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:

2014	$	21,819,388
2015		12,029,647
2016		4,076,867
2017		4,177,474
2018		237,315
Thereafter		4,191,667
	$	46,532,358

Property and equipment rental expense was approximately $20,217,596 and $25,474,057 for fiscal years 2013 and 2012, respectively.

At August 31, 2013, future minimum rental income for space leased to others is as follows:

2014	$	237,635
2015		225,678
2016		226,912
2017		141,385
2018		130,750
	$	962,360

(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 EAF. The College will pay EAF approximately $11.5 million (including approximately $3.0 million for the College's share of the residential life and meal plan expenses) toward its maximum rental liability in connection with its lease of 806 beds in fiscal year 2014. This lease obligation of $8.4 million is reflected in the aforementioned future minimum lease payments. Subsequent to fiscal year 2014, 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 a real estate management firm.

The chairman and chief executive officer of that firm is also a member of the College's Board of Trustees.

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 last available financial statements dated July 31, 2013, EAF reported unaudited assets of $139,046,350; liabilities of $142,863,093, which included bonds payable net of discounts of $139,057,553; and a net deficit of $3,816,743. EAF reported operating revenue of $28,304,262 and expenses of $24,011,333 for the year ended July 31, 2013.

(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, 2013 and 2012 are comprised of the following:

	2013	2012
Gifts and other unexpended resources available for:		
Academic programs	$ 2,607,890	2,932,047
Scholarships and fellowships	5,560,313	4,383,588
Community programs	1,111,078	947,710
Facility	1,268,822	2,307,065
Total temporarily restricted net assets	$ 10,548,103	10,570,410

Permanently restricted net assets consist of endowment funds at August 31, 2013 and 2012. The income earned on the investment of permanently restricted net assets is generally available for use in providing scholarships and supporting the College's educational programs.

(10) Expenses by Functional Classifications

The following is a summary of total expenses classified by function for fiscal years 2013 and 2012:

	2013	2012
Program:		
Instruction	$ 124,364,915	125,832,706
Research	1,805,891	2,295,384
Public service	6,525,966	7,057,871
Library and other academic support	21,838,957	23,017,341
Student services	27,913,012	25,855,172
Auxiliary enterprises	27,257,450	29,860,708
Total program services	209,706,191	213,919,182
Support:		
Management and general	7,334,003	6,835,297
Fundraising	5,006,309	4,892,335
Total support services	12,340,312	11,727,632
Total expenses	$ 222,046,503	225,646,814

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

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

The Board of Trustees of the College has interpreted the State of Illinois Uniform Prudent Management of Institutional Funds Act (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.

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 sheets include true endowments, funds functioning as endowment, and expendable gifts. Endowment net assets exclude the expendable gifts included in the long-term investments.

Endowment net assets consist of the following at August 31, 2013:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (65,213)	1,476,583	4,258,161	5,669,531
Board-designated endowment funds	117,901,617	—	—	117,901,617
Total endowment net assets	$ 117,836,404	1,476,583	4,258,161	123,571,148

Endowment net assets consist of the following at August 31, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (201,798)	988,448	4,201,923	4,988,573
Board-designated endowment funds	103,691,288	—	—	103,691,288
Total endowment net assets	$ 103,489,490	988,448	4,201,923	108,679,861

Changes in endowment net assets for the year ended August 31, 2013 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, August 31, 2012	$ 103,489,490	988,448	4,201,923	108,679,861
Investment return:				
Investment income	1,616,686	—	—	1,616,686
Net appreciation (realized and unrealized)	12,730,228	517,408	—	13,247,636
Total investment return	14,346,914	517,408	—	14,864,322
Contributions				
Transfers to create board-designated funds	—	—	56,238	56,238
Appropriations of endowment assets for expenditure	—	(29,273)	—	(29,273)
Endowment net assets, August 31, 2013	$ 117,836,404	1,476,583	4,258,161	123,571,148

Changes in endowment net assets for the year ended August 31, 2012 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, August 31, 2011	$ 98,262,196	613,414	3,889,556	102,765,166
Investment return:				
Investment income	1,291,796	—	—	1,291,796
Net appreciation (realized and unrealized)	3,935,498	415,341	—	4,350,839
Total investment return	5,227,294	415,341	—	5,642,635
Contributions	—	—	—	—
Transfers to create board-designated funds	—	—	312,367	312,367
Appropriations of endowment assets for expenditure	—	(40,307)	—	(40,307)
Endowment net assets, August 31, 2012	$ 103,489,490	988,448	4,201,923	108,679,861

(Continued)

(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 $65,213 as of August 31, 2013 and $202,000 as of August 31, 2012. 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.

(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 annual Consumer Price Index (CPI) by 5%, 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 5% plus the CPI. 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, and bonds.

(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 is designed to 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 up to 5% of its endowment funds' average fair value using the three 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 $29,273 for fiscal year 2013 and $40,307 for fiscal year 2012.

(12) Subsequent Event

In connection with the preparation of the financial statements and in accordance with FASB ASC Topic 855 – *Subsequent Events*, management evaluated subsequent events after the balance sheet date of August 31, 2013 through December 12, 2013, which was the date the financial statements were available to be issued.