



COLUMBIA COLLEGE CHICAGO

Financial Statements

August 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

COLUMBIA COLLEGE CHICAGO

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KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
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, which comprise the balance sheets as of August 31, 2017 and 2016, 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, 2017 and 2016, 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
January 24, 2018

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Balance Sheets

August 31, 2017 and 2016

Assets	2017	2016
Cash and cash equivalents	\$ 15,863,513	7,063,863
Student accounts receivable, less allowance for doubtful accounts of approximately \$6,880,000 in 2017 and \$8,383,000 in 2016	344,031	438,870
Other accounts and interest receivable, net	354,216	644,519
Deposits and prepaid expenses	4,278,510	3,773,274
Grants and contributions receivable, net	642,317	4,578,665
Investments	266,216,779	214,674,176
Land, buildings, and equipment, net	<u>213,248,827</u>	<u>211,027,626</u>
Total assets	\$ <u>500,948,193</u>	<u>442,200,993</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 3,701,364	5,286,490
Accrued expenses	12,518,229	9,603,632
Refundable deposits and deferred revenue	36,526,021	37,436,533
Accrued interest payable	724,427	707,693
Accrued pension cost	933,038	5,387,636
Asset retirement obligation	3,546,620	3,018,316
Long-term debt, net	<u>82,971,831</u>	<u>84,395,610</u>
Total liabilities	<u>140,921,530</u>	<u>145,835,910</u>
Net assets:		
Unrestricted	347,061,973	282,554,195
Temporarily restricted	7,706,696	8,830,967
Permanently restricted	<u>5,257,994</u>	<u>4,979,921</u>
Total net assets	<u>360,026,663</u>	<u>296,365,083</u>
Total liabilities and net assets	\$ <u>500,948,193</u>	<u>442,200,993</u>

See accompanying notes to financial statements.

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Statements of Activities

Years ended August 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:								
Revenue:								
Tuition and fees, net of \$36,996,000 and \$39,356,000 in tuition allowances	\$ 155,474,839	—	—	155,474,839	165,613,889	—	—	165,613,889
Student housing, net of \$592,000 and \$564,000 in room allowances	27,602,168	—	—	27,602,168	27,791,395	—	—	27,791,395
Sales and services	2,758,894	—	—	2,758,894	3,012,203	—	—	3,012,203
Private gifts and grants	301,494	1,146,898	—	1,448,392	291,534	2,360,031	—	2,651,565
Government grants and contracts	3,620,642	—	—	3,620,642	3,859,136	—	—	3,859,136
Investment gains for operations	1,292,122	—	—	1,292,122	1,610,840	—	—	1,610,840
Additional endowment spending distribution from board designated funds	8,680,000	—	—	8,680,000	6,000,000	—	—	6,000,000
Other	367,037	—	—	367,037	275,139	—	—	275,139
Net assets released from restrictions	2,669,214	(2,669,214)	—	—	2,888,552	(2,888,552)	—	—
Total operating revenue	202,766,410	(1,522,316)	—	201,244,094	211,342,688	(528,521)	—	210,814,167
Expenses:								
Salaries and wages	87,574,717	—	—	87,574,717	86,973,010	—	—	86,973,010
Employee benefits	27,750,401	—	—	27,750,401	26,915,352	—	—	26,915,352
Supplies and services	25,849,436	—	—	25,849,436	30,115,991	—	—	30,115,991
Operation and maintenance of plant	37,977,812	—	—	37,977,812	39,139,409	—	—	39,139,409
Interest	3,141,213	—	—	3,141,213	2,959,453	—	—	2,959,453
Depreciation and amortization	15,221,629	—	—	15,221,629	14,289,180	—	—	14,289,180
Total operating expenses	197,515,208	—	—	197,515,208	200,392,395	—	—	200,392,395
Excess (deficiency) of operating revenue over operating expenses	5,251,202	(1,522,316)	—	3,728,886	10,950,293	(528,521)	—	10,421,772
Nonoperating activities:								
Investment gains (losses), less amounts for operations	18,774,961	1,078,612	—	19,853,573	6,520,178	(295,164)	—	6,225,014
Additional endowment spending distribution from board designated funds	(8,680,000)	—	—	(8,680,000)	(6,000,000)	—	—	(6,000,000)
Capital gifts for facilities and collections	555,100	11,000	—	566,100	376,975	8,999	—	385,974
Gifts to permanently restricted funds	—	—	83,073	83,073	—	—	45,036	45,036
Other income	42,346,831	—	—	42,346,831	3,300,212	—	—	3,300,212
Loss on disposal of equipment	(365,440)	—	—	(365,440)	(58,284)	—	—	(58,284)
Loss on extinguishment of debt	—	—	—	—	(6,874,068)	—	—	(6,874,068)
Recognition of change in pension funded status	7,781,784	—	—	7,781,784	1,551,482	—	—	1,551,482
Net periodic pension cost: plan settlements	(1,653,227)	—	—	(1,653,227)	(2,690,206)	—	—	(2,690,206)
Change in fund designation	496,567	(691,567)	195,000	—	974	(171,749)	170,775	—
Change in net assets	64,507,778	(1,124,271)	278,073	63,661,580	7,077,556	(986,435)	215,811	6,306,932
Net assets at beginning of year	282,554,195	8,830,967	4,979,921	296,365,083	275,476,639	9,817,402	4,764,110	290,058,151
Net assets at end of year	\$ 347,061,973	7,706,696	5,257,994	360,026,663	282,554,195	8,830,967	4,979,921	296,365,083

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended August 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 63,661,580	6,306,932
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Recognition of change in pension funded status	(4,454,598)	(763,359)
Depreciation and amortization	15,304,679	14,289,180
Donation of fixed assets and collections, net of costs	(566,100)	(385,974)
Loss on extinguishment of debt	—	6,874,068
Net gain on investments	(21,257,603)	(7,958,928)
Gifts to endowment	(83,073)	(45,036)
Changes in assets and liabilities:		
Student accounts receivable	94,839	1,783,293
Other accounts and interest receivable	290,303	(353,422)
Deposits and prepaid expenses	(505,236)	367,317
Grants and contributions receivable	3,936,348	(2,668,293)
Accounts payable	(1,585,126)	1,536,841
Accrued expenses	2,914,597	(1,200,137)
Refundable deposits and deferred revenue	(910,512)	17,132,347
Accrued interest payable	16,734	(106,437)
Asset retirement obligation	528,304	152,568
Net cash provided by operating activities	57,385,136	34,960,960
Cash flows from investing activities:		
Proceeds from sale of investments	145,327,260	80,953,871
Purchase of investments	(175,612,260)	(107,534,233)
Purchase of land, buildings, and equipment	(16,987,727)	(11,633,684)
Net cash used in investing activities	(47,272,727)	(38,214,046)
Cash flows from financing activities:		
Proceeds from gifts to endowment	83,073	45,036
Proceeds from issuance of debt instruments	—	61,277,312
Payments to extinguish debt	—	(69,087,856)
Increase in capital lease obligation	2,674,633	4,146,453
Payments on capital lease obligation	(1,760,465)	(1,178,750)
Decrease in bond funds held in trust	—	6,140,721
Principal payments on long-term debt	(2,310,000)	(2,800,000)
Net cash used in financing activities	(1,312,759)	(1,457,084)
Net increase (decrease) in cash and cash equivalents	8,799,650	(4,710,170)
Cash and cash equivalents at beginning of year	7,063,863	11,774,033
Cash and cash equivalents at end of year	\$ 15,863,513	7,063,863
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	\$ 2,916,289	1,822,092
Supplementary disclosure of noncash transactions:		
Donated fixed assets and collections	\$ 566,100	385,974
Additions of equipment relating to capital lease obligation	2,674,633	4,040,067
Retainage and accruals for construction in progress	576,306	448,737

See accompanying notes to financial statements.

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Notes to Financial Statements

August 31, 2017 and 2016

(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 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

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Notes to Financial Statements

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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 (7% and 5% for fiscal years 2017 and 2016, respectively) 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. 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.

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Notes to Financial Statements

August 31, 2017 and 2016

(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, 2017 and 2016, believes it has no significant uncertain tax positions.

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Notes to Financial Statements

August 31, 2017 and 2016

(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, 2017 and 2016, the College has recorded site improvements of \$941,699 and \$621,831; associated accumulated depreciation of \$457,355 and \$290,513; and an asset retirement obligation of \$3,546,620 and \$3,018,316, 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. 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 Measurement*, 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.

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Notes to Financial Statements

August 31, 2017 and 2016

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) 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.

(l) Recent Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles (Subtopic 350-40): Goodwill and Other-Internal-Use Software*. This pronouncement provides guidance to evaluate the accounting for fees paid by a customer in a cloud computing arrangement. This guidance becomes effective for the College for fiscal years beginning after December 15, 2015, with early adoption permitted. The College adopted the provision of ASU No. 2015-05 during fiscal year 2017.

(3) Grants and Contributions Receivable

At August 31, 2017 and 2016, grants and contributions receivable were \$642,317 and \$4,578,665, respectively, net of discounts of \$11,833 and allowances of \$0 for fiscal year 2017 and discounts of \$15,149 and allowances of \$0 for fiscal year 2016. Of the amount outstanding at August 31, 2017, \$514,150 is expected to be collected within one year, \$95,141 is expected to be collected within two to five years, and \$33,026, is expected to be collected after five years.

(4) Investments

Investments are stated at fair value. 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 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, 2017 and 2016, the College had no plans to sell investments at amounts different from NAV.

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Notes to Financial Statements

August 31, 2017 and 2016

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, 2017 and 2016 are comprised of the following:

	<u>2017</u>		<u>Redemption or liquidity</u>	<u>Days' notice</u>
	<u>Level 1</u>	<u>Total</u>		
Cash and cash equivalents	\$ 15,863,513	15,863,513	Daily	1
Investments:				
Fixed income ^(a)				
Endowment	17,460,301	17,460,301	Daily	1
Operations	<u>93,167,641</u>	<u>93,167,641</u>	Daily	1
Subtotal	<u>110,627,942</u>	<u>110,627,942</u>		
Equities ^(b)	2,632,028	<u>2,632,028</u>	Daily	7
Investments measured at net asset value		<u>152,956,809</u>		
Total investments at fair value as of August 31, 2017		<u>\$ 266,216,779</u>		

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August 31, 2017 and 2016

	2016		Redemption or liquidity	Days' notice
	Level 1	Total		
Cash and cash equivalents	\$ 7,063,863	7,063,863	Daily	1
Investments:				
Fixed income ^(a)				
Endowment	7,542,367	7,542,367	Daily	1
Operations	<u>72,694,019</u>	<u>72,694,019</u>	Daily	1
Subtotal	<u>80,236,386</u>	<u>80,236,386</u>		
Equities ^(b)	<u>2,225,572</u>	<u>2,225,572</u>	Daily	7
Investments measured at net asset value		<u>132,212,218</u>		
Total investments at fair value as of August 31, 2016		\$ <u><u>214,674,176</u></u>		

(a) Includes investments in mutual funds that invest in fixed income securities.

(b) Includes investments in U.S. and non-U.S. common stocks and funds and includes mainly small capitalization stocks. Management of the fund has the ability to shift investments from value to growth strategies.

The components of total investment return are reflected below:

	2017	2016
Interest income and dividends net of fees	\$ 3,193,154	3,256,672
Realized and unrealized gains, net	<u>17,952,541</u>	<u>4,579,182</u>
Total return	\$ <u><u>21,145,695</u></u>	<u><u>7,835,854</u></u>

(5) Land, Buildings, and Equipment

Land, buildings, and equipment at August 31, 2017 and 2016 are comprised of the following:

	2017	2016
Land	\$ 25,480,621	24,978,066
Buildings and improvements	276,035,467	270,942,403
Furnishings and equipment	90,675,444	87,196,361
Library collections	12,939,652	12,995,004
Museum and art collections	14,896,252	14,269,720
Construction in process	<u>11,522,617</u>	<u>4,239,316</u>
	431,550,053	414,620,870
Less accumulated depreciation	<u>218,301,226</u>	<u>203,593,244</u>
	\$ <u><u>213,248,827</u></u>	<u><u>211,027,626</u></u>

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Notes to Financial Statements

August 31, 2017 and 2016

Outstanding commitments for construction contracts amounted to approximately \$154,724 and \$0 at August 31, 2017 and 2016, respectively.

(6) Long-Term Debt

Long-term debt at August 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
IFA first mortgage notes:		
2000 Series issued April 1, 2000	\$ 17,100,000	17,100,000
2013 Series issued October 31, 2013	3,980,000	5,290,000
2015 Series issued October 15, 2015	56,455,000	56,955,000
Land trust note issued April 30, 1993	—	500,000
Capital lease obligation	<u>4,110,343</u>	<u>3,196,175</u>
	81,645,343	83,041,175
2015 Series unamortized premium	2,247,705	2,358,703
Unamortized bond issuance costs	<u>(921,217)</u>	<u>(1,004,268)</u>
	<u>\$ 82,971,831</u>	<u>84,395,610</u>

Maturities of long-term debt outstanding at August 31, 2017 are as follows:

	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>	<u>Thereafter</u>	<u>Total</u>
IFA notes:							
2000 Series	\$ —	—	—	—	—	17,100,000	17,100,000
2013 Series	1,330,000	1,345,000	650,000	655,000	—	—	3,980,000
2015 Series	510,000	530,000	1,270,000	1,320,000	2,045,000	50,780,000	56,455,000
Capital lease	<u>1,427,797</u>	<u>1,447,065</u>	<u>488,414</u>	<u>747,067</u>	<u>—</u>	<u>—</u>	<u>4,110,343</u>
	<u>\$ 3,267,797</u>	<u>3,322,065</u>	<u>2,408,414</u>	<u>2,722,067</u>	<u>2,045,000</u>	<u>67,880,000</u>	<u>81,645,343</u>

All first mortgage notes were issued by the 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 1.38% to 5.00%. Interest payments are due semiannually except for the Series 2000 mortgage notes on which interest is due monthly.

In October 2015, the College issued \$50,490,000 Illinois Finance Authority Revenue Refunding Bonds, Series 2015A and \$7,975,000 Illinois Finance Authority Taxable Revenue Refunding Bonds, Series 2015B (Series 2015 Bonds). The proceeds were used to refund all of the outstanding Illinois Finance Authority Revenue Bonds, Series 2003, Series 2007, and Series 2011; and to pay certain costs of issuance of the bonds. The transaction also generated a \$2,359,000 premium on the Series 2015A bonds. Interest rates on the bonds range from 2.00% to 5.00%. 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 end August 31, 2017 and 2016 were 0.79% and 0.56%, respectively. In the event that the agent

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is unable to remarket the bonds, the bonds become a demand note under an irrevocable letter of credit issued by BMO Harris 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, 2017 and 2016 and carries an interest rate equal to the prime rate (4.25% at August 31, 2017 and 3.50% at August 31, 2016) 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, 2017 and 2016, no amounts have been drawn on the letter of credit. The letter of credit is valid through July 1, 2019. 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, 2017 and 2016.

The land trust note was paid in full on July 17, 2017. It was 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 was approximately \$4.2 million at August 31, 2016. The note was due to mature on April 30, 2029. Interest on the note was 5% payable annually.

Capital Leases

The College has certain lease agreements for copy machines and network equipment, which are considered capital leases. Future minimum lease payments as of August 31, 2017 are as follows:

	<u>Annual lease payment</u>
Year:	
2018	\$ 1,557,815
2019	1,552,344
2020	568,182
2021	<u>795,301</u>
Total	4,473,642
Less imputed interest	<u>(363,299)</u>
Present value of lease	<u>\$ 4,110,343</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 IRS, indicating that the plan is exempt from tax under the applicable provisions of the Internal Revenue Code.

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

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, 2017 and 2016, as determined at the measurement dates of August 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 50,971,844	51,518,828
Interest cost	1,726,579	2,163,329
Actuarial (gain)/loss	(1,135,731)	3,984,004
Benefits paid	<u>(5,597,995)</u>	<u>(6,694,317)</u>
Benefit obligation at end of year	<u>45,964,697</u>	<u>50,971,844</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	45,584,208	45,367,833
Actual gain on plan assets	5,045,446	2,810,692
Employer contributions	—	4,100,000
Benefits paid	<u>(5,597,995)</u>	<u>(6,694,317)</u>
Fair value of plan assets at end of year	<u>45,031,659</u>	<u>45,584,208</u>
Funded status recognized on the balance sheets	\$ <u><u>(933,038)</u></u>	<u><u>(5,387,636)</u></u>

The accumulated benefit obligation for the plan was \$45,964,697 and \$50,971,844 at August 31, 2017 and 2016, respectively.

Net periodic pension cost for the plan for the fiscal years ended August 31, 2017 and 2016 included the following components, which are reported in employee benefits expenses with the exception of impact of plan settlements:

	<u>2017</u>	<u>2016</u>
Interest cost on projected benefit obligation	\$ 1,726,579	2,163,329
Expected return on plan assets	(2,197,456)	(2,162,163)
Net amortization and deferral	2,144,836	2,196,751
Impact of plan settlements	<u>1,653,227</u>	<u>2,690,206</u>
Net periodic pension cost	\$ <u><u>3,327,186</u></u>	<u><u>4,888,123</u></u>

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Discount rates of 3.70% and 3.50% were used in determining the actuarial present value of the projected benefit obligations for fiscal years 2017 and 2016, respectively. The expected long-term rate of return on assets was 5% for fiscal years 2017 and 2016, 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 2017 and 2016 was 0%.

Weighted average asset allocation by asset category is as follows:

	<u>2017</u>	<u>2016</u>
Equities	60 %	60 %
Bonds	40	40

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 did not make a contribution to the plan during fiscal year 2017.

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(s)</u>	<u>Amount</u>
2018	\$ 4,159,109
2019	2,674,195
2020	3,350,443
2021	2,562,192
2022–2027	17,054,071

(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 \$4,495,728 and \$4,708,338 during fiscal years 2017 and 2016, respectively, which are reported in employee benefits expenses.

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(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:

2018	\$	18,850,965
2019		18,748,369
2020		19,113,332
2021		19,602,935
2022		20,105,197
Thereafter		<u>76,391,320</u>
	\$	<u>172,812,118</u>

Property and equipment rental expense was \$21,057,715 and \$21,280,677 for fiscal years 2017 and 2016, respectively.

At August 31, 2017, future minimum rental income for space leased to others is as follows:

2018	\$	178,854
2019		164,719
2020		168,253
2021		<u>101,662</u>
	\$	<u>613,488</u>

In May 2017, the College announced its intention to build a student center. The student center will be constructed on land already owned by the College. The College estimates the cost of the project will be approximately \$50.0 million.

(b) University Center of Chicago

On May 30, 2002, the College entered into a multi-school agreement for student housing with two other Chicago institutions of higher education to build a joint student residence known as the University Center of Chicago (UCC). The facility opened in August 2004, and houses approximately 1,700 students and live-in staff near the College's downtown campus. The schools formed a not-for-profit corporation under IRS Section 501(c)(3) called Education Advancement Fund, Inc. (EAF) to develop, operate, and own UCC. The College was a 40.625% noncontrolling member of EAF. Accordingly, EAF's financial statements are not consolidated or combined with the College.

In July 2017, EAF sold the UCC to a third party and began the process of dissolution of the organization. Based on the terms of the membership agreement, EAF members received distributions of EAF's net assets after repayment of EAF's debt in July and August of 2017. The College's

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distributions from EAF approximated \$42.3 million during the year ended August 31, 2017 and are reported as nonoperating other income on the statement of activities.

The College has entered into a 10 year operating lease with the new owner of the UCC through May 2027. The commitments under this lease are included in the previous section of this footnote.

(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, 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Gifts and other unexpended resources available for:		
Academic programs	\$ 317,956	435,183
Scholarships and fellowships	5,253,304	5,337,493
Community programs	1,203,217	1,462,190
Facility	<u>932,219</u>	<u>1,596,101</u>
Total temporarily restricted net assets	<u>\$ 7,706,696</u>	<u>8,830,967</u>

Permanently restricted net assets consist of endowment funds at August 31, 2017 and 2016. 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 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Program:		
Instruction	\$ 91,973,880	104,156,230
Research	71,357	329,175
Public service	5,249,879	6,503,455
Library and other academic support	19,162,938	20,604,937
Student services	30,647,468	31,251,315
Auxiliary enterprises	<u>26,746,985</u>	<u>27,291,289</u>
Total program services	<u>173,852,507</u>	<u>190,136,401</u>
Support:		
Management and general	21,735,743	7,699,926
Fundraising	<u>1,926,958</u>	<u>2,556,068</u>
Total support services	<u>23,662,701</u>	<u>10,255,994</u>
Total expenses	\$ <u>197,515,208</u>	\$ <u>200,392,395</u>

(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

For purposes of accounting for its endowments, the Board of Trustees of the College has chosen to require 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, 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

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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, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	2,590,780	5,257,994	7,848,774
Board-designated endowment funds	<u>165,200,365</u>	<u>—</u>	<u>—</u>	<u>165,200,365</u>
Total endowment net assets	\$ <u>165,200,365</u>	<u>2,590,780</u>	<u>5,257,994</u>	<u>173,049,139</u>

Endowment net assets consist of the following at August 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (5,174)	1,754,379	4,979,921	6,729,126
Board-designated endowment funds	<u>135,251,031</u>	<u>—</u>	<u>—</u>	<u>135,251,031</u>
Total endowment net assets	\$ <u>135,245,857</u>	<u>1,754,379</u>	<u>4,979,921</u>	<u>141,980,157</u>

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Changes in endowment net assets for the year ended August 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, August 31, 2016	\$ 135,245,857	1,754,379	4,979,921	141,980,157
Investment return:				
Investment income	1,901,032	—	—	1,901,032
Net appreciation	<u>16,733,476</u>	<u>1,114,474</u>	<u>—</u>	<u>17,847,950</u>
Total investment return	18,634,508	1,114,474	—	19,748,982
Contributions	20,000,000	—	83,073	20,083,073
Change in donor designation	—	(51,348)	195,000	143,652
Appropriations of endowment assets for expenditure	<u>(8,680,000)</u>	<u>(226,725)</u>	<u>—</u>	<u>(8,906,725)</u>
Endowment net assets, August 31, 2017	\$ <u><u>165,200,365</u></u>	<u><u>2,590,780</u></u>	<u><u>5,257,994</u></u>	<u><u>173,049,139</u></u>

Changes in endowment net assets for the year ended August 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, August 31, 2015	\$ 125,235,691	1,641,388	4,764,110	131,641,189
Investment return:				
Investment income	1,645,836	—	—	1,645,836
Net appreciation (depreciation)	<u>4,539,147</u>	<u>(295,164)</u>	<u>—</u>	<u>4,243,983</u>
Total investment return	6,184,983	(295,164)	—	5,889,819
Contributions	9,825,183	—	215,811	10,040,994
Change in donor designation	—	572,755	—	572,755
Appropriations of endowment assets for expenditure	<u>(6,000,000)</u>	<u>(164,600)</u>	<u>—</u>	<u>(6,164,600)</u>
Endowment net assets, August 31, 2016	\$ <u><u>135,245,857</u></u>	<u><u>1,754,379</u></u>	<u><u>4,979,921</u></u>	<u><u>141,980,157</u></u>

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(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 \$31,447 as of August 31, 2017 and \$20,898 as of August 31, 2016. 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 7% 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 \$226,725 for fiscal year 2017 and \$164,600 for fiscal year 2016. In addition, the Board of Trustees approved a distribution from board designated endowments of \$8.7 million in 2017 and \$6.0 million in 2016 to be used for operations.

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(12) Subsequent Events

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, 2017 through January 24, 2018, which was the date the financial statements were available to be issued.

The College entered into two separate purchase-sale agreements for land and buildings prior to August 31, 2017, and sold each subsequent to fiscal year end.

- (a) Land and building at 1401-1415 S. Wabash was sold on November 8, 2017 in a cash-only transaction with net proceeds of \$6,268,790 and a gain on sale of \$5,506,205. The net book value of the land and building at time of sale was \$762,585. The College has entered into a leaseback with the purchaser at no cost and will occupy the building through February 28, 2018.
- (b) Land and building at 820 S. Michigan was sold on November 27, 2017 in a cash-only transaction with net proceeds of \$10,554,261 and a gain on sale of \$3,896,010. The net book value of the land and building at time of sale was \$6,658,251.