

City Colleges of Chicago Community College District No. 508

Basic Financial Statements for the Years Ended
June 30, 2007 and 2006, Independent Auditors'
Report, and Single Audit Report (In Accordance With
the Single Audit Act of 1984 and Amendments of
1996, and OMB Circular A-133) for the Year Ended
June 30, 2007

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
City Colleges of Chicago
Community College District No. 508:

We have audited the accompanying basic financial statements of City Colleges of Chicago, Community College District No. 508 ("City Colleges") as of and for the years ended June 30, 2007 and 2006, as listed in the foregoing table of contents. These financial statements are the responsibility of City Colleges' management. Our responsibility is to express an opinion based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City Colleges' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

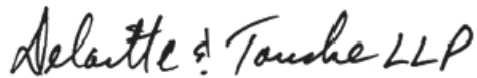
In our opinion, such basic financial statements present fairly, in all material respects, the financial position of City Colleges of Chicago, Community College District No. 508 as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on pages 49–50, dated January 9, 2008, on our consideration of City Colleges' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an

opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards as listed in the foregoing table of contents, which is also the responsibility of City Colleges' management, is presented for purposes of additional analysis as specified in OMB Circular A-133 and is not a required part of the basic financial statements. Such additional information (pages 54 to 58) has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 5–14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of City Colleges' management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

January 9, 2008

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Management Discussion and Analysis (MD&A)



Community College District No. 508 Management's Discussion and Analysis

The discussion and analysis of City Colleges of Chicago (City Colleges) financial performance provides an overall review of City Colleges' financial activities for the year ended June 30, 2007 and 2006. This discussion and analysis focuses on current activities, currently known facts and related changes. The management of City Colleges encourages readers to consider the information being presented herein in conjunction with the transmittal letter, which precedes this section, the basic financial statements and accompanying notes, which immediately follow this section, to enhance their understanding of City Colleges' financial performance. All amounts, unless otherwise indicated, are expressed in millions of dollars. Certain comparative information between the current and prior year is required to be presented in the Management Discussion and Analysis (the "MD&A"). Responsibility for the completeness and fairness of the information presented here rests with City Colleges.

Using This Annual Report

The financial statements focus on City Colleges as a whole. The accompanying financial statements are designed to emulate the presentation model of private sector business-type activities, whereby all City Colleges' activities are consolidated into one total. The Statement of Net Assets combines and consolidates current financial resources (short-term expendable resources) with long-term capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets describe operating results, comparing revenues derived from operations such as tuition and fees with operating expenses, and non-operating results. Non-operating revenues include funding received from State apportionment, grants, and property taxes. This approach is intended to facilitate analysis of financial results of various services to students and the public.

Financial Highlights

The following analysis is prepared from City Colleges' Condensed Statement of Net Assets which is presented on page 7.

Fiscal year 2007 - Total net assets as of June 30, 2007 increased by \$159.4 to \$715.2 million.

Current assets increased by \$84.2 million due in part to a \$115.2 million increase in short-term investments offset by a \$31.9 million decrease in account receivable. The \$115.2 million increase in short-term investments was due to \$46.6 million in transfers from long-term to short-term investments, \$34.1 million from income before capital appropriations, and the payment of the accounts receivable of \$31.9 million noted above.

The investment in capital assets increased by \$139.4 million, which was primarily due to the continued construction of the new Kennedy-King campus. In fiscal year 2007, \$9.2 million in buildings, building improvements and equipment were retired, with a corresponding decrease in accumulated depreciation, in order to recognize the removal of parts of buildings that were remodeled.



Community College District No. 508 Management's Discussion and Analysis

The other non-current assets decreased by \$73.5 million, primarily due to a \$17.1 million decrease in the Funds held by PBCC for funds used for the continuing construction of the new Kennedy-King campus as well as the transfer of \$46.6 million in investments from long-term to short-term.

Total current liabilities decreased by \$1.4 million primarily due to a \$14.1 million decrease in deferred grant revenue offset by a \$12.7 million increase in remaining current liabilities. Total non-current liabilities decreased by \$32.3 million due to a \$24.4 million principal payment of lease obligations, a \$7.1 million decrease in sick leave benefits, and a \$.8 million decrease in other liabilities.

Fiscal year 2006 - Total net assets as of June 30, 2006 increased to \$555 million from \$473 million in fiscal year 2005.

Current assets decreased by \$57.4 million due a reduction in cash of \$7.3 million and a reduction in short term investment of \$69 million, offset by an increase in remaining receivables of \$18.9 million, primarily from City of Chicago for construction reimbursement costs. These dollars were used to early retire outstanding bonds of \$30.4 million and increase long-term unrestricted and restricted investments (other assets) by \$40 million. Additionally, other assets increases were \$19 million in funds held by the Public Building Commission of Chicago (PBCC).

The investment in capital assets increased by \$57.9 million due to additional construction in progress on the Kennedy King campus, and renovation of Harold Washington and Malcolm X campuses. In fiscal year 2006, \$40.4 million in buildings, building improvements and equipment were retired, with a corresponding decrease in accumulated depreciation, in order to recognize the removal of parts of buildings that were remodeled. Also, the college increased its threshold for capitalization of equipment from \$5,000 per item to \$25,000 per item.

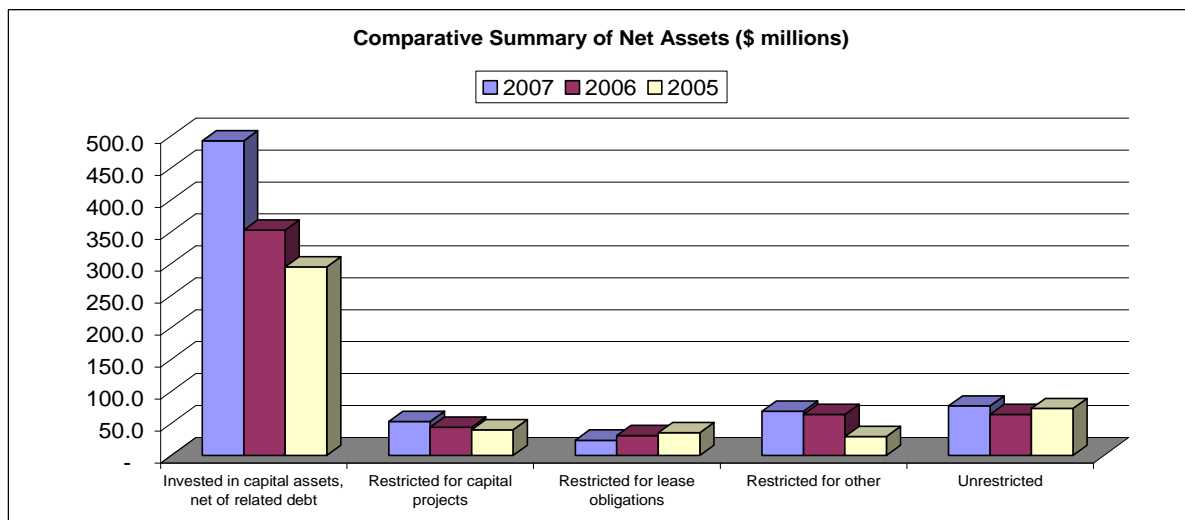
Total current liabilities increased by \$3 million due to an increase in deferred grant revenue of \$11.2 million and a decrease of \$8.2 million in remaining current liabilities. Total non-current liabilities decreased by \$52 million in fiscal year 2006 due to a \$22.5 million principal payment of lease obligations and the extinguishment of \$30.4 million in bonds. During fiscal year 2006, the board authorized the transfer of \$35 million in unrestricted net assets to working cash restricted expendable - other and designated \$32 million of unrestricted net assets for future construction.



**Community College District No. 508
Management's Discussion and Analysis**

**Table 1
Condensed Statement of Net Assets
(in millions of dollars)**

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Current assets	\$ 331.4	\$ 247.2	\$ 84.2	\$ 304.6	\$ (57.4)
Non-current assets					
Capital assets	729.8	603.3	126.5	586.5	16.8
Less accumulated depreciation	(206.1)	(194.6)	(11.5)	(213.2)	18.6
Other assets	<u>60.4</u>	<u>133.9</u>	<u>(73.5)</u>	<u>78.2</u>	<u>55.7</u>
Total assets	<u>\$ 915.5</u>	<u>\$ 789.8</u>	<u>\$ 125.7</u>	<u>\$ 756.1</u>	<u>\$ 33.7</u>
Current liabilities	\$ 170.6	\$ 172.0	\$ (1.4)	\$ 169.0	\$ 3.0
Non-current liabilities	<u>29.7</u>	<u>62.0</u>	<u>(32.3)</u>	<u>114.0</u>	<u>(52.0)</u>
Total liabilities	<u>\$ 200.3</u>	<u>\$ 234.0</u>	<u>\$ (33.7)</u>	<u>\$ 283.0</u>	<u>\$ (49.0)</u>
Net assets					
Invested in capital assets, net of related debt	\$ 492.0	\$ 352.6	\$ 139.4	\$ 294.7	\$ 57.9
Restricted for expendable:					
Capital projects	53.0	44.1	8.9	40.1	4.0
Lease obligation	23.8	31.1	(7.3)	35.5	(4.4)
Other	69.0	64.1	4.9	29.4	34.7
Unrestricted	<u>77.4</u>	<u>63.9</u>	<u>13.5</u>	<u>73.4</u>	<u>(9.5)</u>
Total net assets	<u>\$ 715.2</u>	<u>\$ 555.8</u>	<u>\$ 159.4</u>	<u>\$ 473.1</u>	<u>\$ 82.7</u>





**Community College District No. 508
Management's Discussion and Analysis**

**Table 2
Revenues, Expenses and Changes in Net Assets
(in millions of dollars)**

Operating	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Revenues	\$ 42.5	\$ 48.2	\$ (5.7)	\$ 44.1	\$ 4.1
Expenses	<u>(325.5)</u>	<u>(316.3)</u>	<u>9.2</u>	<u>(302.3)</u>	<u>14.0</u>
Operating loss	(283.0)	(268.1)	14.9	(258.2)	9.9
Non-operating					
Revenues	323.9	305.9	18.0	300.0	5.9
Expenses	<u>(6.9)</u>	<u>(12.7)</u>	<u>(5.8)</u>	<u>(12.5)</u>	<u>0.2</u>
Net non-operating revenue	317.0	293.2	23.8	287.5	5.7
Income before capital contributions	34.0	25.1	8.9	29.3	(4.2)
Capital contributions	<u>125.4</u>	<u>57.6</u>	<u>67.8</u>	<u>53.8</u>	<u>3.8</u>
Change in net assets	159.4	82.7	76.7	83.1	(0.4)
Net assets, beginning of year	<u>555.8</u>	<u>473.1</u>	<u>82.7</u>	<u>390.0</u>	<u>83.1</u>
Net assets, end of year	<u>\$ 715.2</u>	<u>\$ 555.8</u>	<u>\$ 159.4</u>	<u>\$ 473.1</u>	<u>\$ 82.7</u>

Fiscal year 2007 - In fiscal year 2007, income before capital contributions increased by \$8.9 million for the year.

Operating revenues decreased by \$5.7 million due to a \$4.6 decrease in net tuition and fees and a \$1.1 million decrease in other operating revenues. Operating expenses increased by \$9.2 million due to an \$8.7 million increase in staffing costs, a \$3.1 million increase in fringe benefits, and a \$4.3 million increase in supplies, offset by a \$5.4 million decrease in financial aid, and a \$1.6 million decrease in other operating expenses. This caused an increase in the operating loss of \$14.9 million.

Net non-operating revenues increased by \$23.8 million due to a \$5.8 million increase in property taxes, a \$10.9 million increase in state and local grants, a \$4.9 million decrease in federal grants, a \$5.0 million increase in investment income, a \$1.2 million increase in other non-operating revenues, offset by a \$5.8 million decrease in lease and interest payments.

Fiscal year 2006 - In fiscal year 2006, income before capital contributions decreased \$4.2 million for the year. Operating revenues increased by \$4.1 million due to a \$2.1 million increase in tuition and fees and a \$2 million increase in other revenues. These were offset by operating expenses for the fiscal year increasing by \$14 million due to a \$10.7 million increase in staffing costs, a \$5 million increase in depreciation and a \$1.7 million decrease in scholarship allowances. This caused an increase in the operating loss of \$9.9 million.



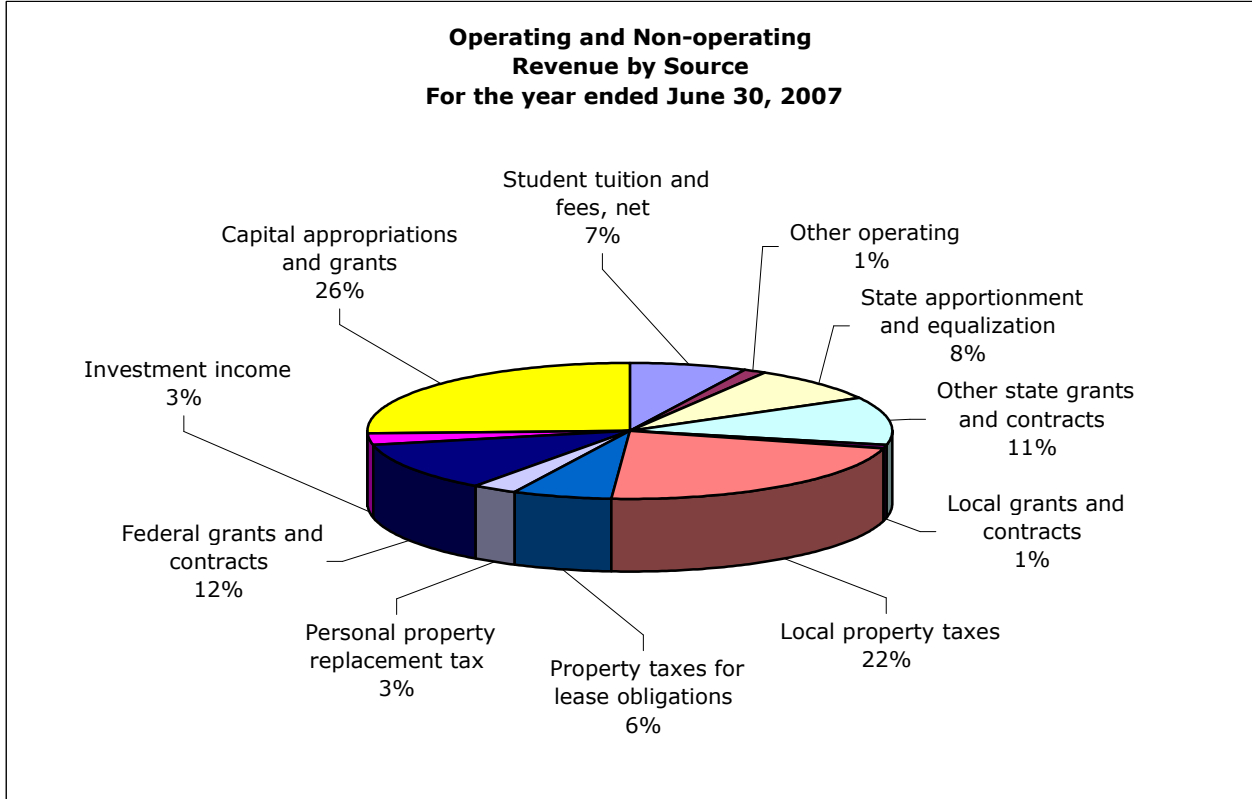
**Community College District No. 508
Management's Discussion and Analysis**

Also in fiscal year 2006, non-operating revenues increased by \$5.9 million due to a \$5.4 million increase in property taxes, \$2.8 million increase in personal property replacement taxes, \$3.4 million increase in investment income offset by a \$5.8 million decrease in other local, state and federal grants.

**Table 3
Operating and Non-operating Revenues
(in millions of dollars)**

	2007	2006	Increase (Decrease)	2005	Increase (Decrease)
Operating revenues:					
Student tuition and fees	\$ 69.5	\$ 67.6	\$ 1.9	\$ 63.7	\$ 3.9
Less scholarships	(34.1)	(27.6)	(6.5)	(25.9)	(1.7)
Other operating	7.1	8.2	(1.1)	6.3	1.9
Total operating revenues	42.5	48.2	(5.7)	44.1	4.1
Non-operating revenues:					
State apportionment and equalization	41.5	38.6	2.9	36.7	1.9
Other state grants and contracts	54.9	48.2	6.7	52.5	(4.3)
Local grants and contracts	4.9	3.6	1.3	4.3	(0.7)
Local property taxes	107.1	101.8	5.3	90.8	11.0
Property taxes for lease obligations	30.1	29.6	0.5	35.2	(5.6)
Personal property replacement tax	14.5	13.3	1.2	10.5	2.8
Federal grants and contracts	57.6	62.5	(4.9)	65.2	(2.7)
Investment income	13.3	8.3	5.0	4.8	3.5
Total non-operating revenues	323.9	305.9	18.0	300.0	5.9
Capital appropriations and grants	125.4	57.6	67.8	53.8	3.8
Total revenues	<u>\$ 491.8</u>	<u>\$ 411.7</u>	<u>\$ 80.1</u>	<u>\$ 397.9</u>	<u>\$ 13.8</u>

**Community College District No. 508
Management's Discussion and Analysis**

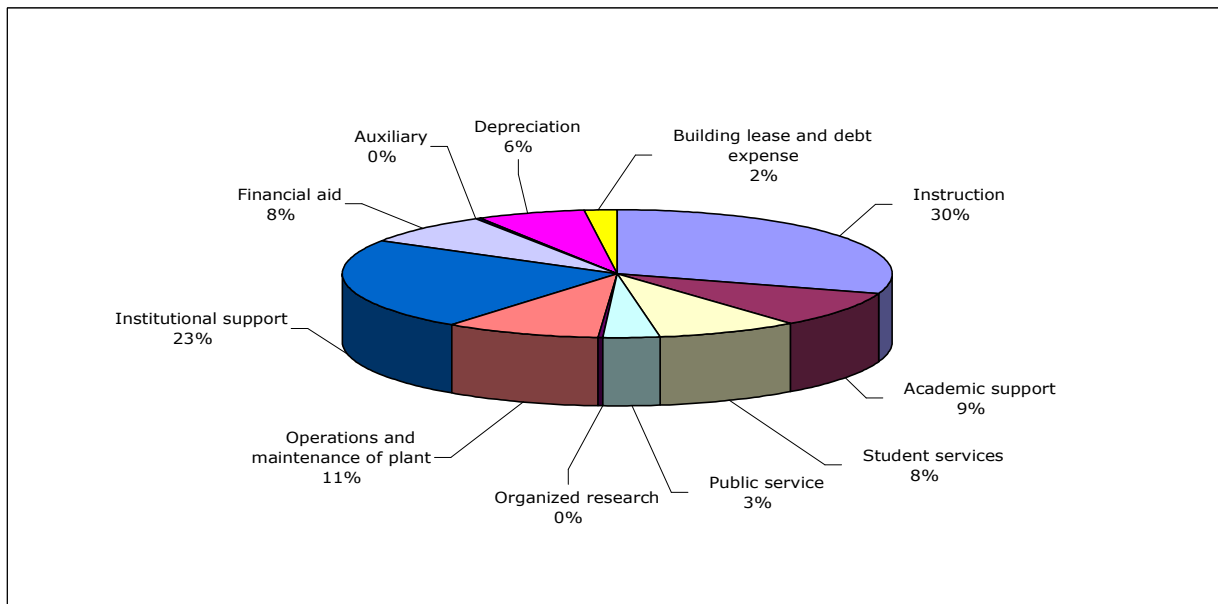




**Community College District No. 508
Management's Discussion and Analysis**

**Table 4
Operating and Non-operating Functional Expenses
(in millions of dollars)**

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Operating Expense					
Instruction	\$ 99.7	\$ 97.1	\$ 2.6	\$ 100.9	\$ (3.8)
Academic support	30.3	27.9	2.4	24.0	3.9
Student services	28.0	25.4	2.6	23.3	2.1
Public service	10.9	9.4	1.5	9.9	(0.5)
Organized research	0.6	0.2	0.4	0.5	(0.3)
Operations and maintenance of plant	31.1	35.2	(4.1)	29.4	5.8
Institutional support	77.5	66.7	10.8	61.9	4.8
Financial aid	26.0	31.4	(5.4)	34.1	(2.7)
Auxiliary	0.7	1.2	(0.5)	1.5	(0.3)
Depreciation	<u>20.7</u>	<u>21.8</u>	<u>(1.1)</u>	<u>16.8</u>	<u>5.0</u>
Total Operating Expenses	325.5	316.3	9.2	302.3	14.0
Non-operating expenses					
Building lease and debt expense	<u>6.9</u>	<u>12.7</u>	<u>(5.8)</u>	<u>12.5</u>	<u>0.2</u>
Total Expenses	\$ <u>332.4</u>	\$ <u>329.0</u>	\$ <u>3.4</u>	\$ <u>314.8</u>	\$ <u>14.2</u>





**Community College District No. 508
Management's Discussion and Analysis**

Table 5
Capital Assets (Net of accumulated depreciation)
As of June 30
(in millions of dollars)

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Capital Assets					
Land	\$ 19.6	\$ 17.4	\$ 2.2	\$ 17.4	\$ -
Buildings and improvements	488.9	478.4	10.5	439.6	38.8
Construction in progress	182.7	70.2	112.5	87.0	(16.8)
Equipment	9.9	8.7	1.2	13.8	(5.1)
Software	28.7	28.6	0.1	28.7	(0.1)
Total	729.8	603.3	126.5	586.5	16.8
Less accumulated depreciation	<u>(206.1)</u>	<u>(194.6)</u>	<u>(11.5)</u>	<u>(213.2)</u>	<u>18.6</u>
Net capital assets	<u>\$ 523.7</u>	<u>\$ 408.7</u>	<u>\$ 115.0</u>	<u>\$ 373.3</u>	<u>\$ 35.4</u>

Capital Assets

Fiscal year 2007 - As of June 30, 2007, City Colleges had \$729.8 million in capital assets, \$206.1 million in accumulated depreciation, and \$523.7 million in net capital assets. This investment in net capital assets includes land, buildings, and improvements; construction in progress; equipment; and software. The total increase in City Colleges' net capital assets for the current fiscal year was \$115 million, or 28.1%.

Major capital asset events during fiscal year 2007 included the following:

- Continued construction of the new Kennedy-King facilities. Capital construction in progress as of the close of the fiscal year had reached \$112.5 million.
- A net increase of \$10.5 million in buildings and improvements was due to a \$19.7 million increase for building renovations, offset by a retirement of \$9.2 million in fully-depreciated building infrastructure.
- Purchased a former LaSalle Bank site near Daley College for \$2.2 million.



Community College District No. 508 Management's Discussion and Analysis

Capital Assets (Continued)

Fiscal year 2006 - As of June 30, 2006, City Colleges had \$603.3 million in capital assets, \$194.6 million in accumulated depreciation, and \$408.7 million in net capital assets. This investment in net capital assets includes land, buildings, and improvements; construction in progress; equipment; and software. The total increase in City Colleges' net capital assets for the current fiscal year was \$35.4 million or 9.5%. City Colleges has a five-year capital renewal plan of \$1.2 billion of which only \$210 million is funded from local sources, and \$150 million of that amount is from the City of Chicago General Obligation Bonds, Series 1999. Additional State funding of \$78 million is subject to appropriation by the State.

Major capital asset events during fiscal year 2006 included the following:

- Continued construction of the new Kennedy-King facilities; construction in progress as of the close of the fiscal year had reached \$57.9 million.
- Completion of Harold Washington campus renovation cost to date of \$38.2 million.
- Completion of Malcolm X campus renovation cost to date of \$34.3 million.
- Retirement of fully-depreciated assets of \$34.6 million as part of above campus renovations of \$72.5 million.
- Retirement of fully-depreciated equipment of \$5.7 million.

Non-current Liabilities

Fiscal year 2007 - As of June 30, 2007, City Colleges had total non-current liabilities of \$64.2 million before reduction of current maturities. This amount includes \$2.6 million for compensated absences, \$20.2 million of accumulated sick leave benefit liability for current employees and \$9.7 million of other post employment benefits for retired employees. The remaining debt of \$31.7 million represents capital lease obligations with the PBCC. The reduction of this debt is due to lease payments totaling \$24.4 million.

Fiscal year 2006 - As of June 30, 2006, City Colleges had total non-current liabilities of \$90.3 million before reduction of current maturities. This amount includes \$2.5 million for compensated absences, \$27.3 million of accumulated sick leave benefit liability for current employees and \$4.4 million of other post employment benefits for retired employees. The remaining debt of \$56.1 million represents capital lease obligations with the PBCC. The reduction in debt of \$52.6 million is due primarily to an early retirement of existing bonds of \$30.4 million, and lease payments totaling \$22.5 million.



**Community College District No. 508
Management's Discussion and Analysis**

Table 6
Non-current Liabilities
As of June 30
(in millions of dollars)

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Accrued compensated absences	\$ 2.6	\$ 2.5	\$ 0.1	\$ 2.1	\$ 0.4
Sick leave benefits	20.2	27.3	(7.1)	31.8	(4.5)
Other post retirement benefits	9.7	4.4	5.3	-	4.4
Bonds payable	-	-	-	30.4	(30.4)
Lease obligations	<u>31.7</u>	<u>56.1</u>	<u>(24.4)</u>	<u>78.6</u>	<u>(22.5)</u>
Sub-total	64.2	90.3	(26.1)	142.9	(52.6)
Less current portion	<u>(34.5)</u>	<u>(28.3)</u>	<u>(6.2)</u>	<u>(28.9)</u>	<u>0.6</u>
Total non-current liabilities	<u>\$ 29.7</u>	<u>\$ 62.0</u>	<u>\$ (32.3)</u>	<u>\$ 114.0</u>	<u>\$ (52.0)</u>

Requests for Information

This financial report is designed to provide a general overview of City Colleges' finances. Questions concerning the report or requests for additional information should be addressed to the Chief Financial Officer, City Colleges of Chicago, 11th Floor, 226 W. Jackson Boulevard, Chicago, IL 60606.

College-Wide Financial Statements

**City Colleges of Chicago
Community College District No. 508
Statement of Net Assets
June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,224,188	\$ 5,803,740
Short-term investments	232,318,400	117,124,888
Property tax receivable, net	75,072,969	72,132,337
Personal property replacement tax receivable	2,563,249	2,330,134
Other accounts receivable, net	17,100,741	49,001,969
Prepaid items and other assets	<u>104,292</u>	<u>794,263</u>
Total current assets	331,383,839	247,187,331
Non-current assets:		
Restricted cash	5,948,146	4,789,133
Funds held by Public Building Commission	24,893,296	41,954,126
Long-term investments	4,381,941	51,008,792
Restricted investments	25,190,240	36,172,611
Capital assets	729,777,010	603,336,250
Less: Accumulated depreciation	<u>(206,074,196)</u>	<u>(194,626,987)</u>
Total non-current assets	<u>584,116,437</u>	<u>542,633,925</u>
Total assets	<u>915,500,276</u>	<u>789,821,256</u>
Liabilities		
Current Liabilities:		
Accounts payable	10,291,903	7,471,790
Accrued payroll	5,572,138	4,961,742
Other accruals	2,838,206	2,333,822
Deferred salaries	2,712,214	2,332,048
Deposits held in custody for others	2,126,815	2,165,567
Deferred tuition and fees revenue	4,788,373	4,580,151
Deferred property tax revenue	68,397,262	66,489,843
Accrued property tax refunds	18,498,179	18,994,259
Deferred grant revenue	12,832,655	26,926,031
Other liabilities	8,093,975	7,454,213
Current portion of non-current liabilities	<u>34,490,360</u>	<u>28,329,480</u>
Total current liabilities	170,642,080	172,038,946
Non-current liabilities:		
Accrued compensated absences	2,567,291	2,503,498
Sick leave benefits	20,194,545	27,320,200
Other post employment benefits	9,659,093	4,429,624
Lease obligations	31,695,000	56,105,000
Less current portion of non-current liabilities	<u>(34,490,360)</u>	<u>(28,329,480)</u>
Total non-current liabilities	<u>29,625,569</u>	<u>62,028,842</u>
Total liabilities	200,267,649	234,067,788
Net assets		
Invested in capital assets, net of related debt	492,006,098	352,604,264
Restricted for expendable:		
Capital projects	53,039,227	44,140,970
Lease obligations	23,795,853	31,071,292
Other	69,032,703	64,113,553
Unrestricted	<u>77,358,746</u>	<u>63,823,389</u>
Total net assets	<u>\$ 715,232,627</u>	<u>\$ 555,753,468</u>

The accompanying notes are an integral part of these financial statements.

City Colleges of Chicago
Community College District No. 508
Statement of Revenues, Expenses and Changes in Net Assets
For the fiscal years ended June 30, 2007 and 2006

Revenues	<u>2007</u>	<u>2006</u>
Operating revenues:		
Student tuition and fees:		
Resident tuition	\$ 51,441,016	\$ 52,461,309
Nonresident tuition	5,608,592	3,789,915
Fees	12,463,794	11,327,106
Less: Scholarship allowances	<u>(34,160,855)</u>	<u>(27,658,747)</u>
Net student tuition and fees	35,352,547	39,919,583
Other operating revenues	<u>7,130,296</u>	<u>8,277,517</u>
Total operating revenues	42,482,843	48,197,100
 Expenses		
Operating expenses:		
Instructional salaries	79,978,494	77,081,414
Non - instructional salaries	85,211,555	79,361,358
Fringe benefits	38,573,600	35,479,612
Supplies	18,458,080	14,115,136
Professional development	2,285,888	2,018,035
Equipment not capitalized	2,775,642	2,291,005
Utilities	10,558,453	10,373,592
Contractual services	36,639,498	37,894,971
Depreciation	20,667,118	21,810,983
Financial aid, exclusive of scholarship allowances	26,031,017	31,470,269
Other expenses	<u>4,255,320</u>	<u>4,377,241</u>
Total operating expenses	<u>325,434,665</u>	<u>316,273,616</u>
Operating loss	(282,951,822)	(268,076,516)
 Nonoperating revenues (expenses):		
State apportionment and equalization	41,498,443	38,580,616
Other state grants and contracts	54,901,471	48,190,000
Local grants and contracts	4,900,467	3,616,535
Local property taxes	107,099,097	101,823,185
Property taxes for lease obligations	30,099,651	29,592,741
Personal property replacement tax	14,518,747	13,307,576
Federal grants and contracts	57,549,889	62,483,048
Investment income	13,311,136	8,264,368
Building lease and interest payments on debt	<u>(6,873,136)</u>	<u>(12,687,374)</u>
Nonoperating revenues, net	<u>317,005,765</u>	<u>293,170,695</u>
Income before capital appropriations and grants	<u>34,053,943</u>	<u>25,094,179</u>
Capital appropriations and grants	<u>125,425,216</u>	<u>57,572,975</u>
Change in net assets	159,479,159	82,667,154
Net assets, beginning of year	<u>555,753,468</u>	<u>473,086,314</u>
Net assets, end of year	<u><u>\$ 715,232,627</u></u>	<u><u>\$ 555,753,468</u></u>

The accompanying notes are an integral part of these financial statements.

City Colleges of Chicago
Community College District No. 508
Statement of Cash Flows
For the fiscal years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Tuition and fees	\$ 36,832,165	\$ 35,438,560
Payments to suppliers	(87,797,749)	(108,605,728)
Payments to employees	(175,507,661)	(155,692,554)
Payments to students	(26,031,017)	(31,470,269)
Other	7,130,296	8,277,517
Net cash (used) by operating activities	<u>(245,373,966)</u>	<u>(252,052,474)</u>
Cash flows from noncapital financing activities		
Local property taxes except for capital lease payments	101,644,239	104,510,656
State appropriations	85,666,887	79,618,428
Personal property replacement tax	14,285,632	12,852,627
Grants and contracts	64,629,609	71,927,065
Principal and interest on debt, net	-	(3,094,309)
Net cash provided by noncapital financing activities	<u>266,226,367</u>	<u>265,814,467</u>
Cash flows from capital and related financing activities		
Local property taxes for capital lease payments	34,025,216	29,064,134
Capital lease principal, interest and other	(32,158,060)	(31,005,514)
Bonds payable	-	(30,973,517)
Capital appropriations and grants	155,900,871	20,773,986
Purchases of capital assets	(134,718,291)	(49,866,218)
Net cash provided (used) by capital and related financing activities	<u>23,049,736</u>	<u>(62,007,129)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	30,584,515	161,529,927
Purchases of investments	(88,168,805)	(132,505,940)
Interest received on investments	13,261,614	8,673,215
Net cash (used) provided by investing activities	<u>(44,322,676)</u>	<u>37,697,202</u>
Net (decrease) in cash	(420,539)	(10,547,934)
Cash at beginning of year	10,592,873	21,140,807
Cash at end of year	<u>\$ 10,172,334</u>	<u>\$ 10,592,873</u>
Cash and cash equivalents	\$ 4,224,188	\$ 5,803,740
Restricted cash	5,948,146	4,789,133
	<u>\$ 10,172,334</u>	<u>\$ 10,592,873</u>

The accompanying notes are an integral part of these financial statements.

City Colleges of Chicago
Community College District No. 508
Statement of Cash Flows (Continued)
For the fiscal years ended June 30, 2007 and 2006

	2007	2006
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (282,951,822)	\$ (268,076,516)
Reconciling adjustments		
Depreciation	20,667,118	21,810,983
State payment for retirement obligation	10,733,027	7,152,188
Changes in net assets:		
Receivables, net	1,271,396	(2,738,886)
Prepaid expenses	739,493	426,991
Accounts payable	2,820,113	(7,534,578)
Accrued payroll	610,396	1,092,022
Other accruals	1,379,308	(2,758,066)
Deferred salaries	380,166	(666,353)
Deposits held in custody for others	(38,752)	305,212
Deferred tuition and fees	208,222	(1,742,137)
Other liabilities	639,762	352,117
Accrued compensated absences	63,793	423,462
Sick leave benefits	(7,125,655)	(4,528,537)
Other post employment benefits	5,229,469	4,429,624
Net cash (used) by operating activities	\$ (245,373,966)	\$ (252,052,474)

The State of Illinois provided \$942,378 and \$7,356,449 of in-kind capital assets during the years ended June 30, 2007 and 2006, respectively.

The accompanying notes are an integral part of these financial statements.

Notes to Basic Financial Statements

**City Colleges of Chicago
Community College District No. 508**

**Notes to Basic Financial Statements
June 30, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City Colleges of Chicago, Community College District No. 508 (City Colleges), is a separate taxing body created under the Illinois Public Community College Act of 1965 with boundaries coterminous with the City of Chicago. City Colleges delivers educational and student services through seven colleges, each of which is separately accredited by the North Central Association. The Board of Trustees, appointed by the Mayor of Chicago and ratified by the City Council, is responsible for establishing the policies and procedures by which City Colleges is governed.

A. Reporting Entity

The accompanying financial statements include all entities for which the Board of Trustees of City Colleges has financial accountability. In defining the financial reporting entity, City Colleges has considered whether there are any potential component units.

The Public Building Commission of Chicago (PBCC) and the City Colleges of Chicago Foundation are organizations affiliated with City Colleges. These entities are not reflected in these financial statements as component units of City Colleges. The resources of PBCC are not received or held entirely or almost entirely for City Colleges, nor can City Colleges access a majority of PBCC's resources. The City Colleges of Chicago Foundation's resources are equivalent to less than 0.62% of City Colleges' net assets and, therefore, deemed not significant.

B. Basis of Accounting

For financial reporting purposes, City Colleges is considered a special-purpose government engaged only in business-type activities. Accordingly, City Colleges' financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

City Colleges of Chicago
Community College District No. 508

Notes to Basic Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

B. Basis of Accounting *(Continued)*

Non-exchange transactions, in which City Colleges receives value without directly giving equal value in return, include property taxes; federal, state, and local grants; state appropriations; and other contributions. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance. Revenue from grants, state appropriations, and other contributions are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which City Colleges must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to City Colleges on a reimbursement basis.

The accounting policies of City Colleges conform to accounting principles generally accepted in the United States of America as applicable to colleges and universities, as well as those prescribed by the Illinois Community College Board (ICCB). City Colleges' reports are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

C. Cash and Cash Equivalents

Cash includes petty cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of purchase, except for Illinois funds and money market mutual funds, which are treated as investments.

D. Investments

Investments are reported at fair value based upon quoted market prices. Changes in the carrying value of investments, resulting in realized and unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

**City Colleges of Chicago
Community College District No. 508**

**Notes to Basic Financial Statements
June 30, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

E. Receivables

Accounts receivable consists of property taxes, personal property replacement taxes, tuition and fee charges to students and auxiliary facilities service provided to students, faculty and staff. Accounts receivable also includes amounts due from the federal government, as well as state and local governments, in connection with reimbursement of allowable expenditures made pursuant to City Colleges' grants and contract agreements. Receivables are recorded net of estimated uncollectible amounts.

F. Allowance for Uncollectibles

City Colleges provides allowances for uncollectible student accounts and student loans for any outstanding receivable balances greater than 150 days.

G. Property Taxes

City Colleges' property taxes are levied each calendar year on all taxable real property located in City Colleges' district. Property taxes are collected by the Cook and DuPage County Collectors and are submitted to each county's respective county Treasurer, who remits to the units their respective shares of the collections. Cook County taxes levied in one year become generally due and payable in two installments (March 1 and September 1) of the following year. The first installment is an estimated bill and is one half of the prior year's tax bill. The second installment is based on the current levy, assessment, and equalization. Any changes from the prior year will be reflected in the second installment bill. Taxes must be levied by the last Tuesday in December for the following levy year. DuPage County, which represents 1/100 of one percent, follows a similar practice as Cook County. The levy becomes an enforceable lien against the property as of January 1 of the levy year.

Taxes are levied on all taxable real property located in the district for educational purposes, operations and maintenance purposes, financial auditing purposes, liability protection and settlement, the retirement of bonded indebtedness, and lease payments to the PBCC. The tax levies for the educational, operations and maintenance, and financial auditing purposes are limited by Illinois statute to .175%, .05%, and .005%, respectively, of the equalized assessed valuation (EAV).

H. Personal Property Replacement Tax Revenue

Personal property replacement taxes are recognized as revenue when these amounts are deposited by the State of Illinois in its Replacement Tax Fund for distribution.

**City Colleges of Chicago
Community College District No. 508**

**Notes to Basic Financial Statements
June 30, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

I. Prepaid Items and Other Assets

Prepaid expenses and other assets represent amounts paid as of June 30 whose recognition is postponed to a future period. Prepaid expenses consist primarily of prepayments to vendors for maintenance contracts. The other assets category consists primarily of unamortized bond costs.

J. Restricted Cash and Investments

Cash and investments externally restricted for lease or debt service payments, or to purchase or construct capital or other non-current assets, are classified as non-current assets in the Statement of Net Assets.

K. Capital Assets

Capital assets of City Colleges consist of land, buildings, improvements, computer equipment and other equipment. Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation.

Major outlays for assets or improvements to assets over \$200,000 are capitalized as projects are constructed. These are categorized as construction work in process until completed at which time they are reclassified to the appropriate asset type.

City Colleges implemented procedures related to impaired assets. Generally, a capital asset is considered impaired when its service utility has declined significantly and the events or changes in the circumstances are unexpected or outside the normal life cycle.

In fiscal year 2006, City Colleges changed its capitalization policy for movable property to include only items with a unit cost greater than \$25,000 and an estimated useful life greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure and are over \$200,000 are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Renovations that increase the value of the structure and do not extend its life are depreciated over the remaining balance of the building's estimated useful life. When renovations are capitalized, a portion of the original asset renovated is retired from capital assets and accumulated depreciation, using a deflated replacement cost methodology.

**City Colleges of Chicago
Community College District No. 508**

**Notes to Basic Financial Statements
June 30, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

K. Capital Assets *(Continued)*

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Computer Equipment	4
Other equipment	5 - 8

L. Deferred Revenues

Deferred revenues include: (1) tax levies passed that are legally restricted for the subsequent fiscal year; (2) amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year that are related to the subsequent fiscal year; and (3) amounts received from grant and contract sponsors that have not yet been earned.

M. Non-Current Liabilities

Non-current liabilities include: (1) principal amounts of bonds and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences, sick leave benefits (payments to retirees for accumulated unused sick days), other post-employment benefits and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as other assets (deferred charges).

N. Compensated Absences

City Colleges records a liability for employees' vacation leave earned, but not taken up to a maximum number allowed to be carried forward from year to year.

City Colleges of Chicago
Community College District No. 508

Notes to Basic Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

O. Net Assets

City Colleges' net assets are classified as follows:

Invested In Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt represents the City Colleges' total investment in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations related to acquisition, construction, or improvement of those capital assets.

Restricted Net Assets – Expendable

Restricted expendable net assets include resources that the City Colleges is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. When both restricted and unrestricted resources are available for use, it is City Colleges' policy to use restricted resources first and then use unrestricted resources when they are needed. It also includes resources that the City Colleges is restricted from spending by statute.

Unrestricted Net Assets

Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of City Colleges and may be used at the discretion of the governing board to meet current expenses for any purpose.

P. Classification of Revenues and Expenses

City Colleges has classified its revenues and expenses as either operating or non-operating according to the following criteria:

Operating Revenue and Expenses

Operating revenue and expenses includes activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) salaries and benefits, and (4) materials and supplies.

Non-Operating Revenue and Expenses

Non-operating revenue and expenses includes activities that have the characteristics of non-exchange transactions, such as: (1) local property taxes, (2) state appropriations, (3) most federal, state, and local grants and contracts and federal appropriations, (4) gifts and contributions, and (5) principal and interest on debt.

**City Colleges of Chicago
Community College District No. 508**

**Notes to Basic Financial Statements
June 30, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Q. Tuition and Fees

Tuition and fees include all such items charged to students for educational and service purposes. Tuition waivers and scholarships are reported as a discount to tuition revenue. Scholarship grants that are paid to students are recorded as an expense. Tuition and fees revenue is recognized when the educational services are performed.

R. Income Taxes

City Colleges is a governmental body that is not subject to state or federal income taxes.

S. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates and assumptions.

City Colleges of Chicago
Community College District No. 508

Notes to Basic Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

T. New Accounting Standards

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* is effective for financial statements for periods beginning after December 14, 2004. In fiscal year 2006, City Colleges implemented this standard with no financial impact.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which establishes and modifies requirements related to the supplementary information presented in a statistical section, is effective for financial statements for periods beginning after June 15, 2005. In fiscal year 2006, City Colleges implemented this standard.

GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*, which establishes standards of accounting and financial reporting for other post-employment benefits and expenses and assets, note disclosures and required supplementary information, is effective for financial statements for periods beginning after December 15, 2006. In fiscal year 2006, City Colleges implemented this standard. (See Note 15)

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation-an amendment of GASB Statement No. 34*, which states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration, is effective for financial statements for period beginning after June 15, 2005. In fiscal year 2006, City Colleges implemented this standard with no financial impact.

GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes accounting standards for termination benefits, and is effective with the implementation of GASB Statement No. 45. In fiscal year 2006, City Colleges implemented this standard with no financial impact.

**City Colleges of Chicago
Community College District No. 508**

**Notes to Basic Financial Statements
June 30, 2007**

2. DEPOSITS AND INVESTMENTS

The Illinois Public Community College Act and the Illinois Investment of the Public Funds Act allow funds belonging to City Colleges to be invested. City Colleges' policy delegates this authority to the Treasurer of the Board of Trustees as permitted by Illinois law.

In accordance with City Colleges' investment policy, funds may be invested in the following types of securities within certain limitations: (a) securities backed by the full faith and credit of the United States, (b) United States or its agencies government securities, (c) bank certificates of deposit, (d) commercial paper, (e) money market mutual funds, when they are invested in securities noted in items (a) and (b) above, (f) obligations of agencies created by an Act of Congress, (g) savings and loan securities, (h) certain credit unions if specifically authorized by the Board of Trustees and fully secured, (i) the Illinois Funds (Money Market and Prime), and, (j) repurchase agreements. It is the policy of City Colleges to invest its funds in a manner which will provide for the preservation of capital while providing for yields consistent with the market and meeting the daily cash flow demands of City Colleges and conforming to all state and local statutes governing the investment of public funds, using the "prudent person" standard for managing the overall portfolio.

The primary objective of the policy is legality, safety, and preservation of capital and protection of investment principal, liquidity and yield.

Deposits

Custodial credit risk – with regards to deposits with financial institutions, this is the risk that in the event of bank failure, City Colleges' deposits may not be returned. City Colleges' investment policy requires pledging of collateral for all bank balances in excess of federal depository insurance.

Investments

In accordance with its investment policy, City Colleges limits its exposure to **interest rate risk** by maintaining substantial balances in money market funds and limiting maturities to not more than two years at the time of purchase, except for funds held by the defeasement of debt where the maturities coincide with the debt payment schedule. City Colleges limits its exposure to the **credit risk**, the risk that the issuer of a debt security will not pay its par value upon maturity, by primarily investing in obligations guaranteed by the United States Government or securities issued by agencies of the United States Government that are explicitly guaranteed by the United States Government. However, City Colleges' investment policy does not specifically limit City Colleges to these types of investments, as noted above.

**City Colleges of Chicago
Community College District No. 508**

**Notes to Basic Financial Statements
June 30, 2007**

2. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Custodial credit risk – relating to investments, this is the risk that, in the event of the failure of the counterparty to the investment, City Colleges will not be able to recover the value of its investments that are in possession of an outside party. To limit its exposure, City Colleges' investment policy requires all security transactions that are exposed to custodial credit risk to be processed on a delivery versus payment (DVP) basis with the underlying investments held by a third party acting as City Colleges' agent separate from where the investment was purchased. Illinois Funds is not subject to custodial credit risk.

Concentration of credit risk – At June 30, 2007 and 2006 respectively, City Colleges had greater than five percent of its overall portfolio invested in the Illinois Funds. This is in accordance with City Colleges' investment policy, which does not contain any specific guidelines on the diversification of the investment portfolio.

Derivatives – City Colleges' investment policy specifically prohibits the use of or investment in derivatives.

Investments are commingled in order to maximize earnings

The State Treasurer maintains the Illinois Funds at cost and fair value through daily adjustment in the interest earnings. The State Treasurer also maintains the average duration of the pool at less than 20 days. The pool funds are deposits received from participating local governments within the State of Illinois. The fair value of City Colleges' investment in the funds is the same as the value of the pool shares. The Pool is audited annually by an outside independent auditor and copies of the report are distributed to participants. The Pool maintains a Standard and Poor's AAAM rating. City Colleges' investments in the Illinois Funds are not required to be categorized because they are not securities. The relationship between City Colleges and the investment agent is direct contractual relationship and the investments are not supported by a transferable instrument that evidences ownership or creditorship. All funds deposited in the Illinois Funds (Money Market) and Money Market Mutual Funds are classified as investments even though they could be withdrawn within one day. The Prime Fund requires deposits for a minimum of 30 days and a 7 day notice for withdrawals. Although not subject to direct regulatory oversight, the Illinois Fund is administered in accordance with provisions of the Illinois Public Investment Act, 30ILCS 235. The reported value of the funds is the same as the fair value.

The carrying amount of its investments at June 30, 2007, which approximates fair value, is \$261,890,581. The amount at June 30, 2006 was \$204,306,291.

**City Colleges of Chicago
Community College District No. 508**

**Notes to Basic Financial Statements
June 30, 2007**

2. DEPOSITS AND INVESTMENTS *(Continued)*

Investments *(Continued)*

City Colleges' investments are shown in the following tables:

Investment Type	S&P Rating	June 30, 2007	Investment Maturities (in years)	
		Fair Value	Less Than 1	1 - 2
US Treasury Obligations	AAA	\$ 30,145,298	\$ 30,145,298	\$ -
Federal Agency Securities	AAA	11,184,437	10,535,262	649,175
Federal National Mortgage Assoc.	AAA	13,207,622	9,474,855	3,732,767
Illinois Funds (Money Market)	AAAm	16,514,442	16,514,442	-
Illinois Funds (Prime)	AAAm	165,648,542	165,648,542	-
Money Market Mutual Funds	n/a	25,190,240	25,190,240	-
Total investments		<u>\$ 261,890,581</u>	<u>\$ 257,508,639</u>	<u>\$ 4,381,942</u>

Investment Type	S&P Rating	June 30, 2006	Investment Maturities (in years)	
		Fair Value	Less Than 1	1 - 2
US Treasury Obligations	AAA	\$ 29,794,798	\$ -	\$ 29,794,798
Federal Agency Securities	AAA	10,387,150	-	10,387,150
Federal National Mortgage Assoc.	AAA	17,520,066	4,995,300	12,524,766
Tennessee Valley Authority	AAA	8,638,281	-	8,638,281
Illinois Funds (Money Market)	AAAm	21,342,281	21,342,281	-
Illinois Funds (Prime)	AAAm	89,791,107	89,791,107	-
Money Market Mutual Funds	n/a	25,836,408	25,836,408	-
Commercial Paper	P-1/A-1+	996,200	996,200	-
Total investments		<u>\$ 204,306,291</u>	<u>\$ 142,961,296</u>	<u>\$ 61,344,995</u>

n/a - not available

Per Statement of Net Assets:

	June 30, 2007	June 30, 2006
Investments:		
Short-term investments	\$ 232,318,400	\$ 117,124,888
Long-term investments	4,381,941	51,008,792
Restricted investments	25,190,240	36,172,611
Total Investments	<u>\$ 261,890,581</u>	<u>\$ 204,306,291</u>

**City Colleges of Chicago
Community College District No. 508**

**Notes to Basic Financial Statements
June 30, 2007**

3. OTHER ACCOUNTS RECEIVABLE

City Colleges' other accounts receivable consist of the following:

	June 30	
	2007	2006
Student	\$ 9,367,314	\$ 9,200,863
Grants	5,880,134	8,070,018
Capital improvement	6,938,384	35,378,332
Other	1,345,241	1,667,872
Gross other accounts receivable	23,531,073	54,317,085
Less: Allowance for uncollectibles	(6,430,332)	(5,315,116)
Net other accounts receivable	\$ 17,100,741	\$ 49,001,969

4. RESTRICTED ASSETS

City Colleges' restricted assets consist of the following:

	June 30	
	2007	2006
(A) Cash	\$ 5,948,146	\$ 4,789,133
(B) Funds held by PBCC	24,893,296	41,954,126
(C) Restricted investments	25,190,240	36,172,611
Total restricted assets	\$ 56,031,682	\$ 82,915,870

Restricted for:

- (A) Funds held in trust, and grant funds
- (B) Capital construction
- (C) Capital lease payments

**City Colleges of Chicago
Community College District No. 508**

**Notes to Basic Financial Statements
June 30, 2007**

5. CAPITAL ASSETS

On August 8, 2000, the City of Chicago agreed to provide the funds for a capital improvement program, which included the construction of Kennedy-King Campus and other capital renovations. The City of Chicago had a balance available of \$15,950,093 and \$142,072,722 for City Colleges' projects as of June 30, 2007 and 2006, respectively. These funds are provided from proceeds of City of Chicago general obligation bonds. In connection therewith, City Colleges agreed to abate a portion of its direct annual tax levy on its debt service for lease obligations for the years 2001 through 2006 in amounts equal to the City of Chicago's debt service requirements for the bonds for those years. City Colleges agreed to provide and restrict funds from its own resources for payments to be made under its PBCC agreements through 2006. (See Note 4)

In fiscal year 2006, City Colleges adopted a new capitalization policy for all equipment which has a cost or net book value of \$25,000 or more with an estimated useful life greater than one year. The new policy required such amounts to be capitalized. Due to the new policy, all equipment under this threshold was retired in fiscal year 2006, which amounted to \$5,796,952 which increased depreciation for the year by \$2,086,480.

In fiscal year 2007, renovations were completed which had a life to date cost of \$19,765,679. In accordance with the policy explained in Note 1.K, retirements in the amount of \$9,219,909 were recorded.

In fiscal year 2006, renovations were completed which had a life to date cost of \$73,329,758. In accordance with the policy explained in Note 1.K, retirements in the amount of \$34,624,787 were recorded.

**City Colleges of Chicago
Community College District No. 508**

**Notes to Basic Financial Statements
June 30, 2007**

5. CAPITAL ASSETS *(Continued)*

Capital asset activity for the years ended June 30, 2007 and 2006 is as follows:

	July 1, 2006	Additions	Retirements and Transfers	June 30, 2007
Capital assets not being depreciated:				
Land	\$ 17,388,173	\$ 2,185,867	\$ -	\$ 19,574,040
Construction work in progress	70,201,658	134,452,565	(21,951,544)	182,702,679
Subtotal	87,589,831	136,638,432	(21,951,544)	202,276,719
Capital assets being depreciated:				
Equipment	8,756,202	1,153,502	-	9,909,704
Software	28,639,679	54,600	-	28,694,279
Buildings and improvements	478,350,538	19,765,679	(9,219,909)	488,896,308
Subtotal	515,746,419	20,973,781	(9,219,909)	527,500,291
Total capital assets	603,336,250	157,612,213	(31,171,453)	729,777,010
Accumulated depreciation:				
Equipment	3,375,246	1,797,835	-	5,173,081
Software	18,722,091	3,657,210	-	22,379,301
Buildings and improvements	172,529,650	15,212,073	(9,219,909)	178,521,814
Total accumulated depreciation	194,626,987	20,667,118	(9,219,909)	206,074,196
Capital assets, net	<u>\$ 408,709,263</u>	<u>\$ 136,945,095</u>	<u>\$ (21,951,544)</u>	<u>\$ 523,702,814</u>
Cost of buildings and improvements acquired under capital leases (included in total capital assets above)	<u>\$ 391,825,192</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 391,825,192</u>
	July 1, 2005	Additions	Retirements and Transfers	June 30, 2006
Capital assets not being depreciated:				
Land	\$ 17,388,173	\$ -	\$ -	\$ 17,388,173
Construction work in progress	87,031,126	57,070,372	(73,899,840)	70,201,658
Subtotal	104,419,299	57,070,372	(73,899,840)	87,589,831
Capital assets being depreciated:				
Equipment	13,830,775	722,379	(5,796,952)	8,756,202
Software	28,639,679	-	-	28,639,679
Buildings and improvements	439,645,567	73,329,758	(34,624,787)	478,350,538
Subtotal	482,116,021	74,052,137	(40,421,739)	515,746,419
Total capital assets	586,535,320	131,122,509	(114,321,579)	603,336,250
Accumulated depreciation:				
Equipment	5,465,147	3,707,051	(5,796,952)	3,375,246
Software	13,351,459	5,370,632	-	18,722,091
Buildings and improvements	194,421,135	12,733,302	(34,624,787)	172,529,650
Total accumulated depreciation	213,237,741	21,810,985	(40,421,739)	194,626,987
Capital assets, net	<u>\$ 373,297,579</u>	<u>\$ 109,311,524</u>	<u>\$ (73,899,840)</u>	<u>\$ 408,709,263</u>
Cost of buildings and improvements acquired under capital leases (included in total capital assets above)	<u>\$ 391,825,192</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 391,825,192</u>

**City Colleges of Chicago
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**Notes to Basic Financial Statements
June 30, 2007**

6. NET ASSETS

The Board of Trustees of City Colleges has designated certain unrestricted net assets for capital projects. In fiscal year 2007, \$21 million was designated from current and past personal property tax balances and from a bond fund that was paid off during the year for a total of \$49.8 million designated as of June 30, 2007. In fiscal year 2006, the Board designated \$32 million for future construction from accumulated personal property tax revenue for a total of \$36.8 million designated as of June 30, 2006.

7. LEASES

A. Capital Leases

City Colleges has capital lease agreements with the PBCC covering various facilities. For each lease, the amounts necessary to meet the lease payments are accumulated for the Colleges. These amounts include principal and interest for PBCC debt service requirements and other payments required by the leases. Upon payment of all obligations under each lease, all rights and title pertaining to the facilities will be transferred to City Colleges.

Total costs of buildings and improvements acquired under capital leases amounted to \$391,825,192 in fiscal year 2007 and 2006. (See Note 5)

Obligations under these lease agreements as of June 30, 2007 and June 30, 2006 including principal and interest are as follows:

	Principal	Interest	Other	Total
2008	<u>\$ 31,695,000</u>	<u>\$ 1,220,258</u>	<u>\$ 2,250,000</u>	<u>\$ 35,165,258</u>
June 30, 2007	<u>\$ 31,695,000</u>	<u>\$ 1,220,258</u>	<u>\$ 2,250,000</u>	<u>\$ 35,165,258</u>
	Principal	Interest	Other	Total
2007	\$ 24,410,000	\$ 3,481,310	\$ 7,275,000	\$ 35,166,310
2008	<u>31,695,000</u>	<u>1,220,258</u>	<u>2,250,000</u>	<u>35,165,258</u>
June 30, 2006	<u>\$ 56,105,000</u>	<u>\$ 4,701,568</u>	<u>\$ 9,525,000</u>	<u>\$ 70,331,568</u>

Other estimated payments consist principally of administrative charges assessed by the PBCC and amounts to be used for future repair and maintenance related to the leased facilities. Administrative charges by the PBCC are recognized in the period assessed, while repair and maintenance expenses are recognized in the period in which they are incurred.

**City Colleges of Chicago
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**Notes to Basic Financial Statements
June 30, 2007**

7. LEASES *(Continued)*

A. Capital Leases *(Continued)*

Required annual rentals paid by City Colleges may be in excess of the PBCC's requirements for debt service and other expenditures. As provided in the lease agreement, rent surpluses can be used either to reduce the next annual rental payment, or at City Colleges' request, the PBCC may finance future improvements to certain City Colleges facilities.

The annual payments made under the agreements are financed from a specific property tax levy and from the other restricted funds described in Note 4. Amounts collected from this annual property tax levy that have not yet been paid under the agreements are reflected as restricted assets. **(See Note 4)**

Funds held by the PBCC at June 30, 2007 and 2006 primarily represent unused construction proceeds from lease transactions, amounts for renewal and replacement of current leased facilities, amounts held for financed construction, and other estimated administrative expenses. These funds are recorded as restricted accounts by City Colleges.

B. Operating Leases

City Colleges leases equipment and office space under various operating lease agreements that expire at various dates over the next ten years. Certain leases for office space contain renewal provisions.

Operating lease expense was \$1,497,185 for the year ended June 30, 2007 compared to \$1,132,030 for the year ended June 30, 2006.

**City Colleges of Chicago
Community College District No. 508**

**Notes to Basic Financial Statements
June 30, 2007**

7. LEASES *(Continued)*

B. Operating Leases *(Continued)*

Obligations under non-cancelable operating leases with initial or remaining terms in excess of one year as of June 30 are as follows:

	<u>June 30, 2007</u>	
2008	\$	554,770
2009		556,487
2010		570,197
2011		587,303
2012		604,922
2013 - 2015		1,426,809
June 30, 2007	\$	<u>4,300,488</u>

	<u>June 30, 2006</u>	
2007	\$	538,612
2008		554,770
2009		556,487
2010		570,197
2011		587,303
2012 - 2015		2,031,731
June 30, 2006	\$	<u>4,839,100</u>

8. OTHER ACCRUALS AND OTHER LIABILITIES

City Colleges' other accruals and other liabilities consist of the following as of June 30:

	<u>2007</u>	<u>2006</u>
Other accruals		
Accrued interest payable	\$ 203,376	\$ 1,078,300
Accrued for services	2,588,692	902,110
Accrued for goods	8,157	353,412
Property taxes	37,981	-
Total other accruals	<u>\$ 2,838,206</u>	<u>\$ 2,333,822</u>
Other liabilities		
Self insurance	\$ 3,961,775	\$ 2,716,632
Unclaimed property	2,858,282	2,161,274
Other	1,273,918	2,576,307
Total other liabilities	<u>\$ 8,093,975</u>	<u>\$ 7,454,213</u>

**City Colleges of Chicago
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**Notes to Basic Financial Statements
June 30, 2007**

9. ACCRUED PROPERTY TAXES

The taxes levied for education, operations and maintenance liability protection and settlement, audit, retirement of bonded indebtedness, and lease payments to the PBCC are based on the estimated requirements for such purposes. Recent EAV's for tax levies are as follows:

December	Cook County	DuPage County
2006	\$69,473,229,020	\$6,071,637
2005	59,268,296,045	6,296,295
2004	55,302,579,309	6,543,343
2003	53,137,668,356	6,792,347
2002	45,302,653,075	6,871,030

In accordance with City Colleges' Board resolution, 50% of property taxes extended for the 2006 tax year and collected in 2007 are recorded as revenue in fiscal year 2007. The remaining revenue related to the 2006 tax year extension was deferred and will be recorded as revenue in fiscal year 2008. Based upon collection histories, City Colleges recorded real property taxes at 96% of the 2006 extended levy. Accordingly, in fiscal year 2007 City Colleges' reserve for loss and cost has been decreased to \$2,804,214. Accrued property tax refunds in 2007 decreased to \$18,498,179.

In accordance with City Colleges' Board resolution, 50% of property taxes extended for the 2005 tax year and collected in 2006 are recorded as revenue in fiscal year 2006. The remaining revenue related to the 2005 tax year extension was deferred and was recorded as revenue in fiscal year 2007. Based upon collection histories, City Colleges records real property taxes at 96% of the 2005 extended levy. Accordingly, in fiscal year 2006 City Colleges' reserve for loss and cost has been increased to \$2,860,973. Accrued property tax refunds in 2006 increased to \$18,994,259.

10. ACCRUED COMPENSATED ABSENCES

At June 30, 2007, City Colleges had recorded a liability of \$2,567,291 for compensated absences, and estimated that \$140,174 of these liabilities are current and due within one year. At June 30, 2006, the liability was \$2,503,498 for which City Colleges estimated that \$625,875 of these liabilities were current and due within one year. (See Note 13)

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**Notes to Basic Financial Statements
June 30, 2007**

11. SICK LEAVE BENEFITS

Unused Sick Pay

Upon the retirement, permanent disability, or death of a full-time eligible employee, it is the policy of City Colleges to pay over a 3 to 5 year period an amount equal to a percentage of the individual's accumulated unused sick days in the form of a termination benefit. Eligible employees include administrative employees and certain union-represented employees who have served continuously for 10 years or more and are eligible for an annuity under the State University Retirement System (SURS), generally at age 55. City Colleges has recorded a liability for the estimated present value of such benefits earned to date based upon an actuarial study. The method of calculating the estimated present value of an eligible employee's termination benefit liability uses the following assumptions: (1) estimated average annual salary increments of 5.5%, (2) future payments discounted by an 5.0% interest factor in 2007, and (3) estimated rates of retention as adopted from the *Actuary's Pension Handbook* adjusted for mortality in accordance with published mortality tables.

At June 30, 2007, City Colleges accrued \$16,598,357 for the estimated present value of these future retiree benefits for current employees and \$3,596,188 in benefits payable to retired employees for a total of \$20,194,545.

At June 30, 2006, City Colleges accrued \$22,191,441 for the estimated present value of these future retiree benefits for current employees and \$5,128,759 in benefits payable to retired employees for a total of \$27,320,200. (See Note 13)

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**Notes to Basic Financial Statements
June 30, 2007**

12. BONDS PAYABLE

In December 1995, City Colleges issued \$36,245,000 in 20-year revenue bonds at a discount of \$329,388 to retire a prior note payable of \$33,785,000. The Community College District Number 508 Refunding Revenue Bonds, Series 1995 (Taxable) are special, limited obligations of the City Colleges. The bonds are due in annual installments, including interest at 5.9% to 6.9%, beginning May 1, 1996, and ending May 1, 2015. City Colleges has pledged its share of collections of the State of Illinois Personal Property Replacement Tax in amounts sufficient to pay the principal and interest on the bonds. These bonds were retired from investments in the working cash restricted expendable – other fund in fiscal year 2006 at a premium of \$1,227,990. As of June 30, 2007, there were no bonds outstanding.

City Colleges' legal debt margin based on 2.875% of the equalized assessed value is as follows:

	<u>2007</u>	<u>2006</u>
Assessed Valuation	\$ 69,479,300,657	\$ 59,274,592,340
Debt Margin Ratio	<u>0.02875</u>	<u>0.02875</u>
Maximum Debt	1,997,529,894	1,704,144,530
Debt balance as of June 30	<u>31,695,000</u>	<u>56,105,000</u>
Remaining Debt Capacity	<u>\$ 1,965,834,894</u>	<u>\$ 1,648,039,530</u>

**City Colleges of Chicago
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**Notes to Basic Financial Statements
June 30, 2007**

13. CHANGES IN NON-CURRENT LIABILITIES

Changes in non-current liabilities for the years ended June 30, 2007 and 2006 are summarized in the table below:

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions/ Adjustments</u>	<u>June 30, 2007</u>	<u>Amounts due within one year</u>
Accrued compensated absences	\$ 2,503,498	\$ 3,578,782	\$ (3,514,989)	\$ 2,567,291	\$ 140,174
Sick leave benefits	27,320,200	-	(7,125,655)	20,194,545	2,655,186
Other post retirement benefits	4,429,624	12,792,179	(7,562,710)	9,659,093	-
Lease obligations	56,105,000	-	(24,410,000)	31,695,000	31,695,000
	<u>\$ 90,358,322</u>	<u>\$ 16,370,961</u>	<u>\$ (42,613,354)</u>	<u>\$ 64,115,929</u>	<u>\$ 34,490,360</u>

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions/ Adjustments</u>	<u>June 30, 2006</u>	<u>Amounts due within one year</u>
Accrued compensated absences	\$ 2,080,036	\$ 2,985,424	\$ (2,561,962)	\$ 2,503,498	\$ 625,875
Sick leave benefits	31,848,737	-	(4,528,537)	27,320,200	3,293,605
Other post retirement benefits	-	12,851,308	(8,421,684)	4,429,624	-
Bonds payable	30,399,472	-	(30,399,472)	-	-
Lease obligations	78,610,000	-	(22,505,000)	56,105,000	24,410,000
	<u>\$ 142,938,245</u>	<u>\$ 15,836,732</u>	<u>\$ (68,416,655)</u>	<u>\$ 90,358,322</u>	<u>\$ 28,329,480</u>

14. EMPLOYEE RETIREMENT PENSION PLAN

Plan Description: City Colleges contributes to the State Universities Retirement System of Illinois (SURS) defined benefit and defined contribution plans. SURS is a cost-sharing, multiple-employer defined pension plan with a special funding situation, whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, certain other state educational and scientific agencies, and for survivors, dependents, and other beneficiaries of such employees. SURS is included in the State's financial reports as a pension trust fund. SURS is governed by section 5/15, Chapter 40, of the Illinois Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

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**Notes to Basic Financial Statements
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14. EMPLOYEE RETIREMENT PENSION PLAN *(Continued)*

Funding Policy: Plan members are required to contribute 8.0% of their annual covered salary, and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The rate is 10.61%, 10.18%, and 11.12% of annual covered payroll for fiscal year 2007, 2006, and 2005, respectively. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

On July 2, 2003, the State Universities Retirement System received a proportionate share of the proceeds from House Bill 3759 (PA93-002), allocating an additional \$1.432 billion to be applied against the unfunded liability. This payment was in addition to the regular state appropriation received each year. Because of this additional payment, the amount of on-behalf payments received for each employer is substantially larger than in past years. City Colleges' share of this one-time payment amounted to \$62,453,896 for fiscal year 2004 and is included in the table below. Employer contributions to SURS directly appropriated by the state for the years ended June 30 are as follows:

Fiscal Year	Amount
2007	\$ 10,733,027
2006	7,152,188
2005	11,004,508
2004	76,049,885

City Colleges recognizes the amount appropriated by the State as additional state appropriations (non-operating) revenue and recognizes corresponding expense as operating. While the majority of the employer contributions are made by the State, employer contributions for some positions that are federal grant funded are the responsibility of the employer. City Colleges contributed the following for the years ended June 30:

Fiscal Year	Amount
2007	\$ 918,262
2006	1,028,782
2005	790,100
2004	508,757

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**Notes to Basic Financial Statements
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15. OTHER POST-EMPLOYMENT BENEFITS

Plan Description: In addition to providing the pension benefits described in Note 14, City Colleges provides post-employment health care benefits (OPEB) and life insurance to retirees and their spouses. The benefits, benefit levels, employee contributions and employer contributions are governed by City Colleges and can be amended by City Colleges through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a separate report. The activity of the plan is reported in City Colleges' Education sub-fund.

Benefits Provided: City Colleges pays approximately 90% of the medical and life insurance premiums for most retirees and spouses. For other retirees, City Colleges pays a portion of the medical premium. To be eligible for benefits, an employee must qualify for retirement under the State University Retirement System. It is expected that all full-time active employees who retire directly from City Colleges and meet the eligibility criteria will participate.

	<u>2007</u>	<u>2006</u>
Membership: As of June 30, 2007 and 2006, membership consisted of:		
Retirees and beneficiaries currently receiving benefits	673	658
Active employees – vested	<u>1,637</u>	<u>1,569</u>
TOTAL	<u>2,310</u>	<u>2,227</u>
 Participating Employers	 <u>1</u>	 <u>1</u>

Funding Policy: The contribution percentages are negotiated between City Colleges and the retirees. Currently, City Colleges contributes approximately 90% of the premium. For the fiscal year ended June 30, 2007, City Colleges contributed \$7,562,710.

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**Notes to Basic Financial Statements
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15. OTHER POST-EMPLOYMENT BENEFITS *(Continued)*

Annual OPEB Costs and Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Increase in Net OPEB Obligation
June 30, 2007	\$12,792,179	\$7,562,710	59.1%	\$5,229,409
June 30, 2006	\$12,851,308	\$8,421,684	65.5%	<u>\$4,429,624</u>
Total Net OPEB Obligation				<u>\$9,659,093</u>

Annual OPEB Costs and Net OPEB Obligation – City Colleges’ annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Annual Required Contribution	\$ 12,851,308	\$ 12,851,308
Interest on Net OPEB Obligation	221,481	-
Adjustment to Annual Required Contribution	<u>(280,610)</u>	<u>-</u>
Annual OPEB Cost	12,792,179	12,851,308
Contributions Made	<u>(7,562,710)</u>	<u>(8,421,684)</u>
Increase in Net OPEB Obligation	5,229,469	4,429,624
Net OPEB Obligation Beginning of Year	<u>4,429,624</u>	<u>-</u>
Net OPEB Obligation End of Year	<u>\$ 9,659,093</u>	<u>\$ 4,429,624</u>

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**Notes to Basic Financial Statements
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15. OTHER POST-EMPLOYMENT BENEFITS (Continued)

The funded status of the plan as of June 30, 2007 and 2006 was as follows:

	<u>2007</u>	<u>2006</u>
Actuarial Value of Assets	\$ -	\$ -
Actuarial Accrued Liability (AAL)	<u>108,953,481</u>	<u>114,673,652</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$108,953,481</u>	<u>\$114,673,652</u>
Funded Ratio (actuarial value of assets/AAL)	-%	-%
Covered Payroll (active plan members)	\$92,958,918	\$87,441,937
UAAL as a Percentage of Covered Payroll (AAL less Actuarial Value of Assets / UAAL)	117.2%	131%

For the fiscal year ending June 30, 2007, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 5.00% discount rate, and an annual healthcare cost trend rate of 10.00% which gradually declines to a 5.0% by the year 2013. The actuarial value of assets was not determined as City Colleges has not advance-funded its obligation.

16. RISK MANAGEMENT

City Colleges is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. City Colleges self-insures some of the risk and purchases commercial insurance for others. City Colleges purchased property insurance for leases exceeding \$50,000. There have been no significant reductions in insurance coverage from the prior year and claims have not exceeded coverage in any of the past three fiscal years.

A. General Liability – Self-Insurance

City Colleges self-insures for a portion of general liability exposure and has coverage by an independent insurer for claims exceeding \$50,000 up to a ceiling of \$1,000,000. City Colleges has supplemental coverage by an independent insurer for claims exceeding \$1,000,000 up to a ceiling of \$10,000,000. Claims based on occurrences prior to June 15, 1977, remain insured under previous insurance policies. The “Local

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**Notes to Basic Financial Statements
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16. RISK MANAGEMENT *(Continued)*

Government and Governmental Employees Tort Immunity Act” limits the amount of liability of City Colleges. This Act gives City Colleges the authority to levy a special judgment tax or to issue bonds to pay any tort liability judgment.

City Colleges follows the practice of recognizing the expenses for general liability claims in the year such settlements become probable and estimable. City Colleges has accrued for estimated future claims of \$350,300 and \$184,300 as of June 30, 2007 and 2006, respectively.

Management of City Colleges believes there are no material lawsuits or claims covered by the general liability self-insurance programs that have not been adequately accrued.

B. Workers’ Compensation – Self-Insurance

City Colleges self-insures for a portion of workers’ compensation claims and has coverage by an independent insurer for individual claims exceeding \$400,000 up to the statutory limit. The amount of liability of City Colleges is further limited by the “Local Government and Governmental Employees Tort Immunity Act.” This Act gives City Colleges the authority to levy a special judgment tax or to issue bonds to pay any workers’ compensation awards.

City Colleges estimates future claims based on a loss development factor and a specific claim reserve. City Colleges has accrued for estimated future claims of \$2,262,833 and \$1,266,000 as of June 30, 2007 and 2006, respectively. This amount is reported with “Other liabilities – Self-Insurance reserves”. Management of City Colleges believes that there are no material lawsuits or claims covered by the workers’ compensation self-insurance program that have not been adequately covered.

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**Notes to Basic Financial Statements
June 30, 2007**

16. RISK MANAGEMENT *(Continued)*

C. Health Insurance – Self-Insurance

City Colleges self-insures for a portion of its health costs for eligible employees. Future claims are estimated based on historical charges and lag periods. City Colleges has accrued estimated medical expenses of \$1,348,642 and \$1,266,332 as of June 30, 2007 and 2006, respectively that have been incurred, but not claimed.

Summary of Changes in Self-Insurance

	<u>June 30, 2006</u>	<u>Incurred Claims</u>	<u>Payment on Claims</u>	<u>June 30, 2007</u>	<u>Amounts due within one year</u>
General liability	\$ 184,300	\$ 211,419	\$ (45,419)	\$ 350,300	\$ 350,300
Workers' compensation	1,266,000	1,813,220	(816,387)	2,262,833	2,262,833
Health insurance	<u>1,266,332</u>	<u>21,092,463</u>	<u>(21,010,153)</u>	<u>1,348,642</u>	<u>1,348,642</u>
	<u>\$ 2,716,632</u>	<u>\$ 23,117,102</u>	<u>\$ (21,871,959)</u>	<u>\$ 3,961,775</u>	<u>\$ 3,961,775</u>

	<u>June 30, 2005</u>	<u>Incurred Claims</u>	<u>Payment on Claims</u>	<u>June 30, 2006</u>	<u>Amounts due within one year</u>
General liability	\$ 805,300	\$ 270,441	\$ (891,441)	\$ 184,300	\$ 184,300
Workers' compensation	1,650,000	(52,200)	(331,800)	1,266,000	1,266,000
Health insurance	<u>1,228,208</u>	<u>22,843,516</u>	<u>(22,805,392)</u>	<u>1,266,332</u>	<u>1,266,332</u>
	<u>\$ 3,683,508</u>	<u>\$ 23,061,757</u>	<u>\$ (24,028,633)</u>	<u>\$ 2,716,632</u>	<u>\$ 2,716,632</u>

These amounts are recorded on the Statement of Net Assets as Current Liabilities – Other liabilities. (See Note 8)

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**Notes to Basic Financial Statements
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17. COMMITMENTS AND CONTINGENCIES

City Colleges is a defendant in litigation under various matters (sexual harassment, discrimination, personal injury, loss of wages, unfair labor practice, breach of employment contract, etc.) arising in the ordinary course of business. In the opinion of management, this litigation will be vigorously defended and resolved without any material adverse effect upon the financial position of City Colleges.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees of
City Colleges of Chicago
Community College District No. 508:

We have audited the basic financial statements of the City Colleges of Chicago, Community College District No. 508 (the "City Colleges") as of and for the year ended June 30, 2007, and have issued our report thereon dated January 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City Colleges' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City Colleges' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City Colleges' internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

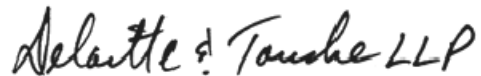
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City Colleges' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material

effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City Colleges in a separate letter dated January 9, 2008.

This report is intended solely for the information and use of management, the Board of Trustees of the City Colleges, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

January 9, 2008

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Trustees of
City Colleges of Chicago
Community College District No. 508:

Compliance

We have audited the compliance of the City Colleges of Chicago, Community College District No. 508 (the "City Colleges"), with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City Colleges' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City Colleges' management. Our responsibility is to express an opinion on the City Colleges' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City Colleges' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City Colleges' compliance with those requirements.

In our opinion, the City Colleges complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding 2007-1.

Internal Control Over Compliance

The management of the City Colleges is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City Colleges' internal control over compliance with the requirements that could have a direct and material effect on a major federal

program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City Colleges' internal control over compliance.

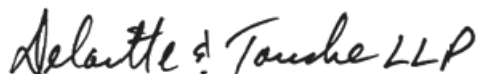
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The City Colleges' response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City Colleges' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees of the City Colleges, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.



March 13, 2008

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY COLLEGES OF CHICAGO COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FISCAL YEAR ENDED JUNE 30, 2007

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
MAJOR PROGRAMS:			
U.S. Department of Education —			
Student Financial Assistance Cluster:			
Federal Pell Grant Program	84.063	P063P061341	\$ 38,881,720
Federal Supplemental Educational Opportunity Grants Program	84.007	P007A061123	1,216,686
Federal Work-Study Program	84.033	P033A061123	1,544,448
Federal Academic Competitiveness Grant	84.375	P375A061341	<u>43,575</u>
Total Student Financial Assistance Cluster			<u>41,686,429</u>
TRIO Cluster:			
TRIO — Upward Bound Program:			
Upward Bound Grant	84.047A	P047A030703	305,147
Upward Bound Grant	84.047A	P047A030557	<u>196,808</u>
			501,955
TRIO — Educational Opportunity Centers			
Educational Opportunity Centers Program	84.066A	P066A020178	<u>204,699</u>
TRIO — Talent Search Program:			
Talent Search Grant	84.044A	P044A020272	198,407
Talent Search Grant	84.044A	P044A020815	50,788
Talent Search Grant	84.044A	P044A060892	<u>265,535</u>
			514,730
TRIO- Student Support Services:			
Student Support Services Program	84.042A	P042A050726	199,385
Student Support Services Program	84.042A	P042A050311	218,178
Student Support Services Program	84.042A	P042A051218	150,909
Student Support Services Program	84.042A	P042A050804	193,338
Student Support Services Program	84.042A	P042A051235	<u>213,867</u>
			975,677
Total TRIO Cluster			<u>2,197,061</u>
TOTAL EXPENDITURES OF MAJOR PROGRAMS			<u>\$ 43,883,490</u>
NONMAJOR PROGRAMS:			
U.S. Department of Education —			
Passed through the Illinois Community College Board:			
Adult Education — State Grants Program:			
Adult Education Grant — Basic	84.002A	50800	3,014,572
Adult Education Grant — Civic	84.002A	50800	493,722
Adult Education Grant — El Civics Pilot Site	84.002A	ELCPS 50800	<u>11,238</u>
			3,519,532
Passed through the Illinois Community College Board:			
Vocational Education — Basic Grant to States (Perkins III) Programs:			
Perkins III Grant	84.048	CTEPIG508	3,792,948
Career and Technical Education	84.048	CTEL07508	140,000
Technical Preparation Support	84.048	TPS50807	<u>64,135</u>
			3,997,083

(Continued)

CITY COLLEGES OF CHICAGO COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FISCAL YEAR ENDED JUNE 30, 2007

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
U.S. Department of Education —			
Higher Education — Institutional Aid Program			
Strengthening Institutions — Hispanic Serving Institutions	84.031S	P031S020036	541,631
Collaboration to Improve Hispanic Transfer & Degree	84.031S	P031S040011	<u>778,033</u>
			<u>1,319,664</u>
U.S. Department of Education —			
Katrina Relief			
	84.938E	P938E060034	<u>68,110</u>
U.S. Department of Education —			
Fund for the Improvement of Postsecondary			
Education Program:			
Comprehensive Program — Wright	84.116B	P116B030714	<u>47,746</u>
U.S. Department of Education —			
Passed through Illinois Community College Board			
Tech-Prep Education Program:			
Federal Technical Prep. Grant	84.243	07TP5080	<u>505,632</u>
U.S. Department of Education —			
Fund for the Improvement of Postsecondary			
Education Program:			
Passed through Community College of Allegheny County			
Globalizing Vocational Training program	84.116J	P116J030035	<u>12,933</u>
for the Electrical Industry to World Class Standards			
U.S. Department of Education —			
Passed through Northeastern University			
Gear-up Program			
Chicago Gear Up Alliance	84.334	P334A050146	<u>175,453</u>
U.S. Department of Education —			
Passed through Illinois State University			
Teacher Quality Enhancement Grant Partnership			
	84.336C	P336C050025	<u>16,143</u>
TOTAL EXPENDITURES — U.S. Department of Education (Major and Nonmajor Programs)			<u>\$ 53,545,786</u>
U.S. Department of Health and Human Services —			
Bridges to the Baccalaureate: Center of Science Success			
	93.879	2 R25 GM066344	136,281
Bridges to the Baccalaureate: Center of Science Success	93.859	5 R25 GM068939	<u>186,910</u>
			<u>323,191</u>
U.S. Department of Health and Human Services —			
Grants for Physician Assistant Training Program			
Physician Assistant Training Grant	93.884	5D57HP05121	<u>147,334</u>

(Continued)

CITY COLLEGES OF CHICAGO COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FISCAL YEAR ENDED JUNE 30, 2007

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
U.S. Department of Health and Human Services — Passed through the City of Chicago Department of Human Services:			
Head Start Program:			
Child Development Association Training Grant	93.600	10755-1	320,678
Child Development Association Training Grant	93.600	10755-2	289,190
Collaboration Full Day Child Care Grant	93.600	9733-1	129,469
Collaboration Full Day Child Care Grant	93.600	9733-2	200,382
			<u>939,719</u>
CCDF Cluster:			
U.S. Department of Health and Human Services — Passed through the City of Chicago Department of Human Services:			
Child Care and Development Block Grant:			
Wrap Around Grant -Child Care Services	93.575	9733-1	131,989
Wrap Around Grant -Child Care Services	93.575	9733-2	256,976
			<u>388,965</u>
U.S. Department of Health and Human Services — Passed through Illinois Department of Human Services:			
Child Care Mandatory and Matching Funds of Child Care Program:			
Child Development Center Grant	93.596	10C4001140	33,413
			<u>33,413</u>
Total CCDF Cluster			<u>422,378</u>
U.S. Department of Health and Human Services — Passed through Illinois Department of Children and Family Services:			
Foster Care — Title III-E Program:			
Foster Parent Training Grant	93.658	1061869016	241,066
			<u>241,066</u>
U.S. Department of Health and Human Services — Passed through the National Collegiate Athletic Association			
National Youth Summer Sport Grant			
Community Services Block Grant — Discretionary Awards (B)	93.570	80-8101	70,523
			<u>70,523</u>
U.S. Department of Health and Human Services — National Institute of Health			
Passed through National Institute of General Medical Sciences			
Passed through Illinois State University Central Illinois Bridge Program	93.859	1 R25 GM073603-01	9,591
			<u>9,591</u>
U.S. Department of Health and Human Services — National Institute of Health			
Passed through National Institute of General Medical Sciences			
Passed through American Psychological Association	93.859	5T36GM008640	19,381
			<u>19,381</u>
Total Expenditures — U.S. Department of Health and Human Services			<u>\$ 2,173,183</u>

CITY COLLEGES OF CHICAGO COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FISCAL YEAR ENDED JUNE 30, 2007

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
U.S. Department of Agriculture —			
Passed through the Illinois State Board of Education			
Child and Adult Care Food Program:			
Child Care Food Grant	10.558	14016508051	40,133
Child Care Food Grant	10.558	14016508051	<u>113,000</u>
			<u>153,133</u>
U.S. Department of Agriculture —			
Passed through Illinois State Board of Education			
National Youth Summer Food Program	10.559	14016508051	<u>47,540</u>
Total Expenditures — U.S. Department of Agriculture			<u>\$ 200,673</u>
WIA Cluster:			
U.S. Department of Labor —			
Passed through Department of Commerce and Economic Opportunity			
Passed through the Workforce Boards of Metropolitan Chicago			
TWL — Workforce Preparation Academy	17.258	028	330,480
TWL — Workforce Preparation Academy	17.258	029	42,133
TWL — Workforce Preparation Academy	17.260	029	<u>108,343</u>
			<u>480,956</u>
U.S. Department of Labor —			
Passed through Illinois Community College Board			
Blended On-Line Healthcare	17.258	BL50807	<u>65,221</u>
Total WIA Cluster			<u>546,177</u>
U.S. Department of Labor —			
Passed through Illinois Department of Commerce and Economic Development:			
ETIP/SMCC — Multi-Company Option	17.261	06-865003	15,837
ETIP/SMCC — Multi-Company Option	17.261	06-865025	60,000
ETIP/SMCC — Multi-Company Option	17.261	07-865023	<u>39,521</u>
			<u>115,358</u>
U.S. Department of Labor —			
Passed through Occupational Safety and Health Administration			
Susan Harwood Training Grant Program	17.502	46E6-HT27	<u>85,529</u>
Total Expenditures — U.S. Department of Labor			<u>\$ 747,064</u>
National Science Foundation —			
Collaboration Research for 2 year Colleges			
Research experiences for undergraduate site	47.049	CHE-0539214	<u>10,096</u>
National Science Foundation —			
Adapting and Implementing Process Oriented			
Guided Inquiry Learning	47.076	DUE-0536113	<u>16,152</u>
National Science Foundation —			
Exploring New Models for Authentic Undergraduate			
Research with Two-Year College Students	47.049	CHE-0629174	<u>314,474</u>

(Continued)

CITY COLLEGES OF CHICAGO COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FISCAL YEAR ENDED JUNE 30, 2007

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
National Science Foundation —			
Pass through Chicago State University			
Illinois Louis Stokes Alliance for Minority Participation- Supplement	47.076	HRD-0413000	5,000
Illinois Louis Stokes Alliance for Minority Participation- Supplement	47.076	HRD-0413000	<u>1,408</u>
			<u>6,408</u>
Passed through Purdue University			
Undergraduate Research Center			
Center for Authentic Science Practice In Education	47.049	CHE-0418902	<u>8,000</u>
TOTAL EXPENDITURES — National Science Foundation			<u>\$ 355,130</u>
U.S. Department of Homeland Security			
Transportation Security Administration			
Passed through American Association of Community Colleges Crew Member Self Defense Training Program	97.068	HSTS01-05-G-WPT917	<u>79,827</u>
U.S. Department of Transportation —			
Passed through University of Wisconsin — Madison			
Optimization of Transportation	20.701	A800354	<u>16,521</u>
National Endowment for the Humanities —			
National Great Books Project: Humanities Education			
for Minority and Non-Traditional Community College Students	45.167	EE-50149-04	<u>6,851</u>
U.S. Department of Energy —			
Passed through Battelle Memorial Institute			
Latino Development and Technology Accelerator Center	81.049	DE-FG02-05ER64032	<u>67,100</u>
Total Expenditures — Other Federal Agencies			<u>170,299</u>
Total All Nonmajor Programs			<u>\$ 13,308,645</u>
Total All Programs			<u>\$ 57,192,135</u>
			(Concluded)

CITY COLLEGES OF CHICAGO COMMUNITY COLLEGE DISTRICT NO. 508

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2007

1. SCOPE OF ENTITY

City Colleges of Chicago – Community College District No. 508 (“City Colleges”) is a separate taxing body created under the Illinois Public Community College Act of 1965, with boundaries coterminous with the City of Chicago. City Colleges delivers educational and student services through seven colleges, each of which is separately accredited by the North Central Association. The Board of Trustees (the “Board”), appointed by the Mayor of Chicago and ratified by the city council, is responsible for establishing the policies and procedures by which City Colleges is governed. The U.S. Department of Education has been designated as the City Colleges’ cognizant agency for the Office of Management and Budget OMB Circular A-133 audit (the “Single Audit”).

Programs Subject to Single Audit — The Schedule of Expenditures of Federal Awards is presented for each federal program related to the following agencies:

- Department of Agriculture
- Department of Education
- Department of Energy
- Department of Health and Human Services
- Department of Homeland Security
- Department of Labor
- Department of Transportation
- National Endowment for the Humanities
- National Institute of Health
- National Science Foundation

Fiscal Period Audited — Single Audit testing procedures were performed for program transactions that occurred during the fiscal year ended June 30, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — Federal financial assistance expenditures are accounted for on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

3. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City Colleges. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The amounts presented in this schedule have been reconciled to the City Colleges’ financial statements.

4. FINDINGS AND NONCOMPLIANCE

The findings and noncompliance identified in connection with the 2007 Single Audit are disclosed in the Schedule of Findings and Questioned Costs.

5. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, City Colleges did not provide federal awards to any subrecipients during the fiscal year ended June 30, 2007.

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION I — SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None Reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ None Reported

Type of auditors' report issued on compliance for major programs:

Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes _____ No

(Continued)

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

**SECTION 1, continued
Identification of Major Programs**

U.S. Department of Education

CFDA Number	Name of Federal Program or Cluster
84.063*	Federal Pell Grant Program
84.007*	Federal Supplemental Educational Opportunity Grants (FSEOG) Program
84.033*	Federal Work-Study Program
84.375*	Federal Academic Competitiveness Grant
84.066^	TRIO Educational Opportunity Centers
84.047^	TRIO Upward Bound Program
84.042^	TRIO Student Support Services
84.044^	TRIO Talent Search Program

* Student Financial Assistance Cluster

^ TRIO Cluster

- Dollar threshold used to distinguish Type A and Type B programs

\$1,715,764

- Auditee qualified as a low-risk auditee?

_____ Yes

_____ X No

(Concluded)

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION II —FINANCIAL STATEMENT FINDINGS

No matters were reported.

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

**FINDING 2007—1
QUESTIONED COSTS: \$2,118**

**STUDENT FINANCIAL ASSISTANCE CLUSTER—CFDA 84.007, 84.063,
U.S. DEPARTMENT OF EDUCATION**

Condition

In 4 out of 35 selections tested for Return of Title IV (R2T4) funds, we noted that the R2T4 funds were not processed by the deadline as stated in 34 CFR 668.22. However, as a result of procedures implemented based on the 2006 corrective action plan, we noted that the R2T4 funds for students that withdrew beginning March 2007 were processed by the deadline.

Cause

The exceptions noted were for students who withdrew in a nontraditional time (after the mid-semester drop date). A monitoring function was not in place to ensure an R2T4 calculation was completed timely for all withdrawals occurring throughout the academic year.

Criteria

R2T4 funds are required to be deposited to the Student Financial Aid accounts or returned to the appropriate lender within 30 days after the date the institution determines that the student withdrew as per 34 CFR Section 668.22(j). Post-withdrawal disbursement of earned Title IV funds must be disbursed in the manner specified by the student within 120 days of the institution's determination date as per 34 CFR 668.22(a)(4)(B).

Context

Our initial error was 4 out of 25 selections, or \$2,118 of funds either not returned timely to Department of Education or not requested as a post-withdrawal disbursement. As a result of the errors being identified, we tested an additional 10 selections. Our additional testing identified no errors. The expenditures for Student Financial Assistance cluster were approximately \$42 million out of total federal expenditures of \$57 million. The total population of R2T4 funds is not able to be produced by City Colleges; however, based on our estimated extrapolated amount, we believe the likely amount is over \$10,000; however, not material to the program.

Effect

Delay in the return of Federal funds could result in penalties and reduction of future revenue; however, no fines were issued to City Colleges for this instance. The delays did, however, result in the questioned costs noted above.

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION III, continued

Recommendation

Put monitoring procedures in place to review all withdrawals throughout the academic year for applicability with R2T4. Ensure R2T4 funds are returned and post-withdrawals are made by the deadline. Develop a report that summarizes the R2T4 payments made to the Department of Education for the award year and utilize this report to ensure R2T4 payments are complete and accurate and made in a timely manner.

Views of Responsible Officials

Refer to page 68 for management's response and corrective action plan.

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2007**

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2007**

FINDING 2007-1

Corrective Action Plan

Person Responsible: District Director of Student Financials Completion Date: Fiscal 2008

We concur with this finding. Effective for the 2008 Summer School Term, City Colleges of Chicago will become a non-attendance-taking institution. As a result, all R2T4 calculations will be calculated with a withdrawal date equal to the mid-term date. The calculation will be based on withdrawals at mid-term thus minimizing the risk of clerical errors. We are in the process of working with OIT to develop a report summarizing R2T4 payments to assist with monitoring of compliance with withdrawals requiring return calculations.

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508
SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007**

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508**

**SUMMARY OF PRIOR-YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007**

PRIOR-YEAR FINANCIAL STATEMENT FINDINGS

Finding 2006-1— CLOSED

Condition

Quality control processes to review draft financial statements should be improved to produce timely and accurate financial statements in accordance with federal and state filing requirements.

Management's Response

Management concurs with the finding. Management will continue to complete monthly analysis of the general ledger accounts and enhance the process by incorporating analytic procedures such as month and year-to-date comparisons to identify possible existence of errors in the financial statements.

Status

No exceptions identified during fiscal year 2007.

PRIOR-YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2006-2

**STUDENT FINANCIAL ASSISTANCE CLUSTER — CFDA 84.007, 84.033, 84.063
U.S. DEPARTMENT OF EDUCATION**

Condition

As a result of the timing of the implementation of City Colleges PeopleSoft Student Account System, the 2006 Fall Semester Return of Title IV (R2T4) Fund amounts to the Department of Education was not completed within the 30 days as required by 34 CFR Section 668.22(j). Funds were returned to the Department of Education after the 30-day requirement, subsequent to the City Colleges' implementation of its R2T4 module in the PeopleSoft Student Account System. During our testing of the Spring Semester, we noted all R2T4 funds tested were returned on time.

Corrective Action Plan

We concur with this finding. The City Colleges will update its current Student Policy Manual to include the necessary requirements for the Return of Title IV Funds. Additionally, the District will implement procedures to ensure compliance with this requirement. A weekly Withdrawal Report will be monitored by the College Financial Aid Directors. An Exception Report that identifies Return of Title IV Funds completed beyond the 30-day requirement will be distributed to College Presidents for a written justification to be submitted to the Vice Chancellor of Finance.

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508**

**SUMMARY OF PRIOR-YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007**

Status

Refer to the current year finding 2007-1.

Finding 2006-3 — CLOSED

**STUDENT FINANCIAL ASSISTANCE CLUSTER — CFDA 84.007, 84.033, 84.063
U.S. DEPARTMENT OF EDUCATION**

Condition

In 10 out of 25 selections we tested for Return of Title IV Fund testing in the 2006 award year, we noted the total amounts returned to the Department of Education were incorrect by \$7,508.

Corrective Action Plan

We concur with this finding. The District will model its policy after the Federal Government's Code of Federal Regulation related to the treatment of Return of Title IV Funds when a student withdraws (34 CFR 668.22). The premise of 34 CFR 668.22 is based on whether the school is required to take attendance or not. The District has determined that attendance is required to be taken. Therefore, the District will utilize the student's last day of academic attendance as determined by the college's attendance records for the calculation of funds to be returned to the federal government. Where instances of ambiguity exist in the interpretation of 34 CFR 668.22, the District will only act upon written guidance received from the U.S. Department of Education.

Status

No exceptions identified during fiscal year 2007.

**CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508**

**SUMMARY OF PRIOR-YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007**

Finding 2006-4— CLOSED

**STUDENT FINANCIAL ASSISTANCE CLUSTER — CFDA 84.007, 84.033, 84.063
U.S. DEPARTMENT OF EDUCATION**

Condition

8 of the 25 students selected were not verified by independent documentation to meet the eligibility requirements of the 2006 award year TRIO cluster that are provided by the Department of Education within OMB Circular A-133, Part 4.

Corrective Action Plan

We concur with the 8 noted exceptions. The District will implement policies and procedures to provide evidence of verification of eligibility requirements for program participants. New policies and procedures will be effective as of July 1, 2007. The Finance Department will utilize the Internal Audit Department to monitor adherence to the new policies and procedures.

The revised policies and procedures are as follows:

1. U.S. Citizenship — all TRIO programs
 - All TRIO-related programs will require nonfinancial aid program participants to provide a copy of one of the following documents as proof of citizenship, which will be maintained in the students file.
 - Birth Certificate
 - Passport
2. Verification of low income, first generation, or disabled criteria for Talent Search and Upward Bound Programs
 - Low income criteria will be verified by financial aid application or most recent filed tax return for non financial aid recipients.
 - First generation criteria will be verified with the Student Support Service Application and / or First Generation Certification Form which must be signed by program participant's legal guardian or parent.
 - Disability verification will be substantiated with a copy of a letter from a government agency. All applicable documentation will be maintained in the student's file.

Status

No exceptions identified during fiscal year 2007.