City Colleges of Chicago Community College District No. 508

Basic Financial Statements for the Years Ended June 30, 2006 and 2005, 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, 2006

CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT No. 508

TABLE OF CONTENTS

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA

Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

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, 2006 and 2005, 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, 2006 and 2005, 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.

As described in Note 1 to the basic financial statements, City Colleges adopted the provisions of Governmental Accounting Standards Board Statements No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and For Insurance Recoveries*", No. 44, "*Economic Condition Statistical Section reporting*", No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*", No. 46, "*Net Assets Restricted by Enabling Legislations*", and No. 47, "*Accounting for Termination Benefits*", as of and for the year ended June 30, 2006.

As discussed in Note 1T, the accompanying 2005 financial statements have been restated.

In accordance with Government Auditing Standards, we have also issued our report on pages 51-52, dated February 1, 2007, 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 55 to 61) 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 4-15 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.

Deloitte + Touche LLP

February 1, 2007

This page intentionally left blank.

Management Discussion and Analysis (MD&A)

City Colleges of Chicago

Community College District No. 508
Management's Discussion and Analysis *(Unaudited)*
For the Year Ended June 30, 2006

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, 2006 and 2005. 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 Schedule is prepared from City Colleges' Statement of Net Assets; page 7, which is presented on an accrual basis of accounting, whereby assets are capitalized and depreciated.

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.

Capital assets increased $57.2 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.

Total net assets as of June 30, 2005, increased to $473 million from $390 million in fiscal year 2004. Fiscal year 2005 current assets have increased $33.7 million mainly due to an increase of $33 million in short-term investments. Capital assets increased $28.1 million due to additional construction in progress on the Kennedy King campus, renovation of Harold Washington and Malcolm X campuses, renovation of the South Shore Culinary center and continued investment in the PeopleSoft enterprise management system. Total non-current liabilities decreased by $26.8 million in fiscal year 2005 due in part to a $20.7 million principal payment of lease obligations.

Key financial highlights for fiscal years 2006, 2005 and 2004 net assets are shown in Table 1.

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

	2006	2005	Increase (Decrease)	2004	Increase (Decrease)
Current assets	$ 247.2	$ 304.6	$ (57.4)	$ 270.9	$ 33.7
Non-current assets					
Capital assets	603.3	586.5	16.8	558.4	28.1
Less depreciation	(194.6)	(213.2)	(18.6)	(222.7)	(9.5)
Other assets	133.9	78.2	55.7	83.5	(5.3)
Total assets	$ 789.8	$ 756.1	$ 33.7	$ 690.1	$ (66.0)
Current liabilities	$ 172.0	$ 169.0	$ 3.0	$ 159.4	$ 9.6
Non-current liabilities	62.0	114.0	(52.0)	140.8	(26.8)
Total liabilities	$ 234.0	$ 283.0	$ (49.0)	$ 300.2	$ (17.2)
Net assets					
Invested in capital assets, net of related debt	$ 352.6	$ 294.7	$ 57.9	$ 236.3	$ 58.4
Restricted for expendable:					
Capital projects	33.8	40.1	(6.3)	42.9	(2.8)
Lease obligation	31.1	35.5	(4.4)	41.0	(5.5)
Other	64.1	29.4	34.7	29.3	0.1
Unrestricted	74.2	73.4	0.8	40.5	32.9
Total net assets	$ 555.8	$ 473.1	$ 82.7	$ 390.0	$ 83.1

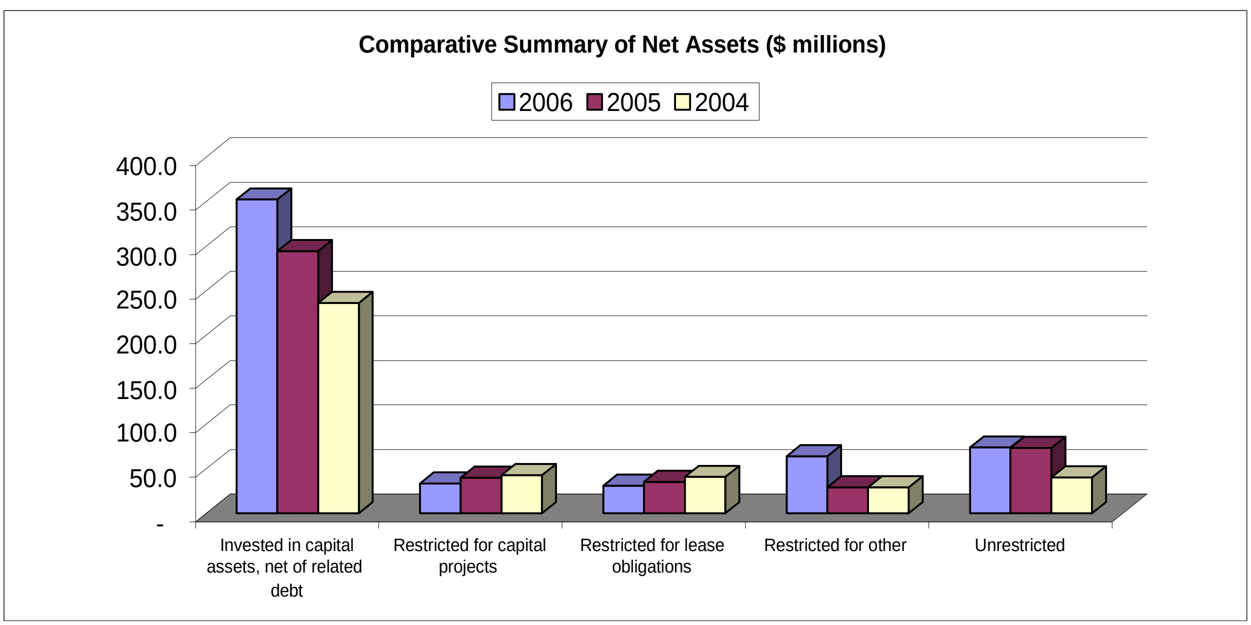

Table 2
Revenues, Expenses and Changes in Net Assets
(in millions of dollars)

Operating	**2006**	**2005**	**Increase (Decrease)**	**2004**	**Increase (Decrease)**
Revenues	$ 48.2	$ 44.1	$ 4.1	$ 40.7	$ 3.4
Expenses	(316.3)	(302.3)	14.0	(366.2)	(63.9)
Operating loss	(268.1)	(258.2)	9.9	(325.5)	(67.3)
Non-operating					
Revenues	305.9	300.0	$ 5.9	349.4	$ (49.4)
Expenses	(12.7)	(12.5)	0.2	(14.2)	1.7
Net non-operating revenue	293.2	287.5	5.7	335.2	(47.7)
Income before capital contributions	25.1	29.3	(4.2)	9.7	19.6
Capital contributions	57.6	53.8	3.8	58.8	(5.0)
Change in net assets	82.7	83.1	(0.4)	68.5	14.6
Net assets, beginning of year	473.1	390.0	83.1	321.5	68.5
Net assets, end of year	$ 555.8	$ 473.1	$ 82.7	$ 390.0	$ 83.1

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 offset by operating expenses for the fiscal year increasing by $14 million due to an $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.

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.

In fiscal year 2005, a tuition increase of $10.00 per credit hour caused operating revenues to increase by $3.4 million generated primarily from a tuition and fees increase of $7.5 million offset by a $5.1 million increase in scholarship allowance.

Operating expenses for fiscal year 2005 decreased by $63.9 million, mainly due to a one-time payment of $62.5 million made by the state to SURS on behalf of the City Colleges in fiscal year 2004. Adjusting for that, net operating expenses decreased by $1.4 million. See table 4 on page 11.

Non-operating revenues for fiscal year 2005 decreased by $49.4 million, mainly due to a one-time payment of $62.5 million made by the state to State Universities Retirement System (SURS) on behalf of the City Colleges in fiscal year 2004, a one time litigation settlement in fiscal year 2004 of $10.3 million, a increase in property taxes of $9 million and other state grants and contracts of $10.3 million.

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

Operating revenues:	**2006**	**2005**	**Increase (Decrease)**	**2004**	**Increase (Decrease)**
Student tuition and fees	$ 67.6	$ 63.7	$ 3.9	$ 56.2	$ 7.5
Less scholarships	(27.6)	(25.9)	1.7	(20.8)	5.1
Other operating	8.2	6.2	2.0	5.3	0.9
Total operating revenues	48.2	44.0	4.2	40.7	3.3
Non-operating revenues:					
State apportionment and equalization	38.6	36.7	1.9	38.7	(2.0)
Other state grants and contracts	48.2	52.5	(4.3)	42.2	10.3
State contribution - SURS*	-	-	-	62.5	(62.5)
Local grants and contracts	3.6	4.3	(0.7)	4.1	0.2
Local property taxes	101.8	90.8	11.0	77.5	13.3
Property taxes for lease obligations	29.6	35.2	(5.6)	39.5	(4.3)
Personal property replacement tax	13.3	10.5	2.8	8.7	1.8
Federal grants and contracts	62.5	65.2	(2.7)	63.1	2.1
Litigation settlement	-	-	-	10.3	(10.3)
Investment income	8.3	4.8	3.5	2.8	2.0
Total non-operating revenues	305.9	300.0	5.9	349.4	(49.4)
Capital appropriations and grants	57.6	53.8	3.8	58.8	(5.0)
Total revenues	$ 411.7	$ 397.8	$ 13.9	$ 448.9	$ (51.1)

* Amount represents one-time payment: (**See Note 14)**

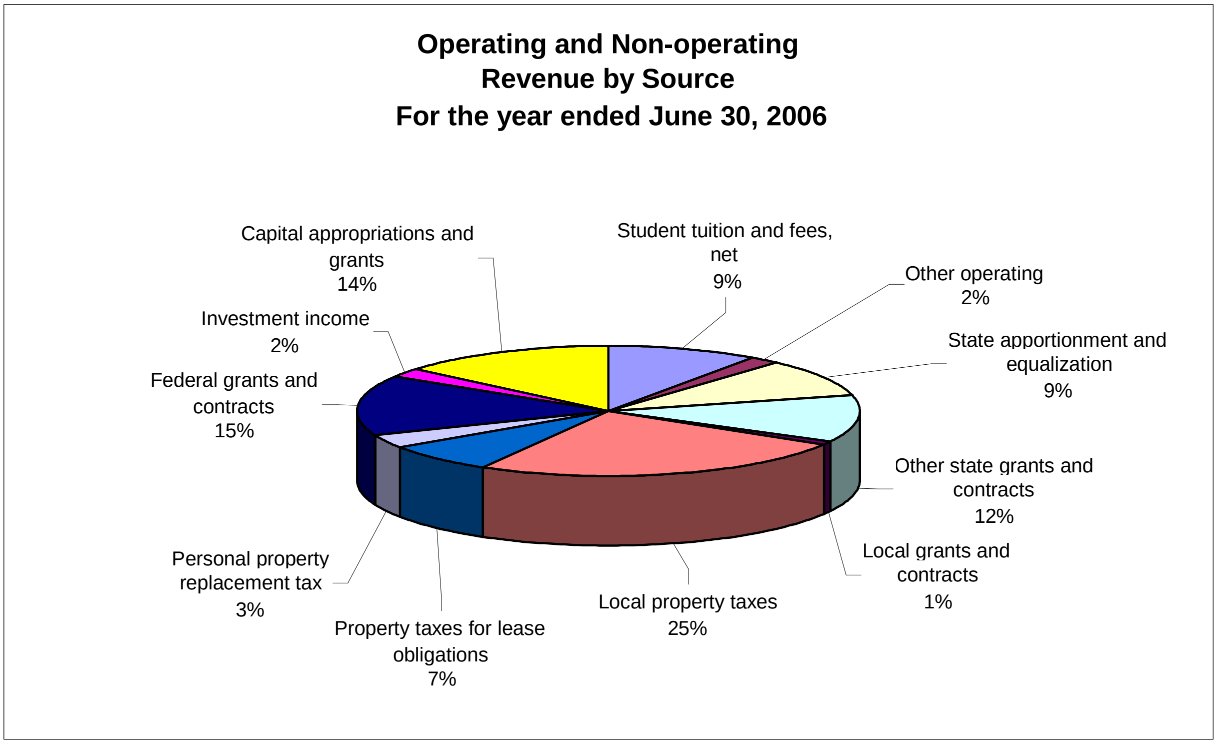
Operating and Non-operating
Revenue by Source
For the year ended June 30, 2006
Capital appropriations and grants 14%
Student tuition and fees, net 9%
Other operating 2%
State apportionment and equalization 9%
Investment income 2%
Federal grants and contracts 15%
Other state grants and contracts 12%
Local grants and contracts 1%
Personal property replacement tax 3%
Local property taxes 25%
Property taxes for lease obligations 7%

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

	2006	2005	Increase (Decrease)	2004 Total	2004 SURS*	2004 Adjusted Balance	Increase (Decrease)
Operating Expense							
Instruction	$ 97.1	$ 100.9	$ (3.8)	$ 141.7	$ 34.0	$ 107.7	$ (6.8)
Academic support	27.9	24.0	3.9	28.8	5.9	22.9	1.1
Student services	25.4	23.3	2.1	28.8	6.3	22.5	0.8
Public service	9.4	9.9	(0.5)	12.0	2.3	9.7	0.2
Organized research	0.2	0.5	(0.3)	0.2	-	0.2	0.3
Operations and maintenance of plant	47.9	41.9	6.0	39.8	7.3	32.5	9.4
Institutional support	53.9	47.9	6.0	62.1	6.4	55.7	(7.8)
Financial aid	31.4	35.6	(4.2)	34.3	-	34.3	1.3
Auxiliary	1.2	1.5	(0.3)	2.1	0.3	1.8	(0.3)
Depreciation	21.8	16.8	5.0	16.4	-	16.4	0.4
Total Operating expenses	316.2	302.3	13.9	366.2	62.5	303.7	(1.4)
Non-operating expenses							
Building lease and debt expense	12.7	12.5	0.2	14.2	-	14.2	(1.7)
Total Expenses	$ 328.9	$ 314.8	$ 14.1	$ 380.4	$ 62.5	$ 317.9	$ (3.1)

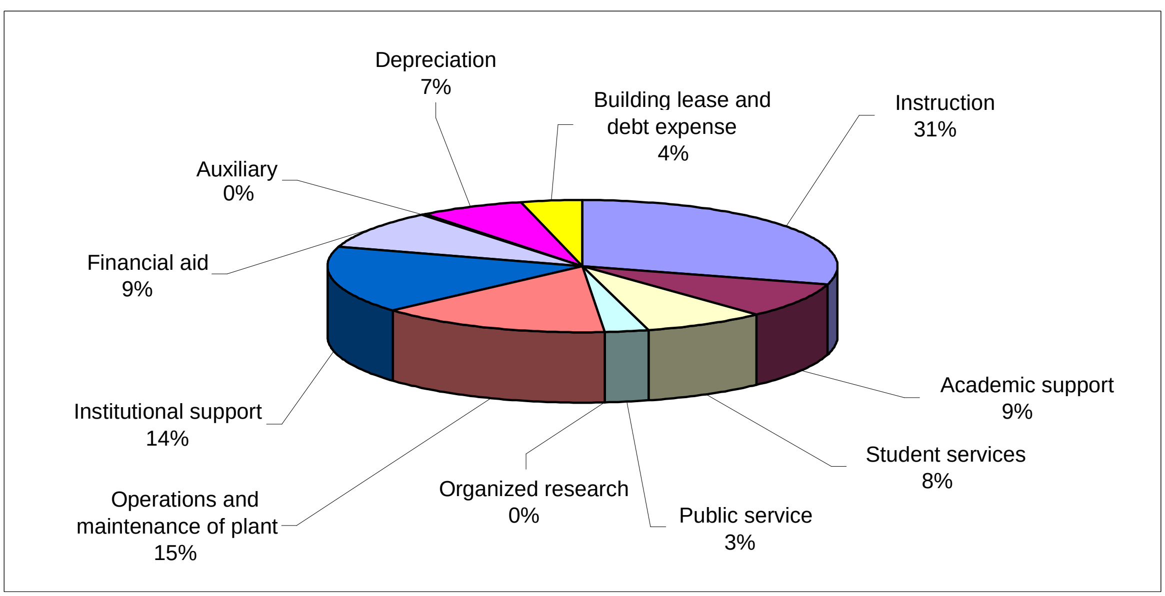

Table 5
Capital Assets *(Net of accumulated depreciation)*
As of June 30
(in millions of dollars)

	2006	2005	Increase (Decrease)	2004	Increase (Decrease)
Capital Assets					
Land	$ 17.4	$ 17.4	$ -	$ 17.4	$ -
Buildings and improvements	478.4	439.6	38.8	426.7	12.9
Construction in progress	70.2	87.0	(16.8)	72.6	14.4
Equipment	8.7	13.8	(5.1)	25.6	(11.8)
Software	28.6	28.7	(0.1)	16.1	12.6
Total	603.3	586.5	16.8	558.4	28.1
Less accumulated depreciation	(194.6)	(213.2)	18.6	(222.7)	9.5
Net capital assets	$ 408.7	$ 373.3	$ 35.4	$ 335.7	$ 37.6

Capital Assets

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' investment in 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 building addition of $72.5 million.
- Retirement of fully-depreciated equipment of $5.7 million.

Capital Assets *(Continued)*

As of June 30, 2005, City Colleges had $586.5 million in capital assets, $213.2 million in accumulated depreciation, and $373.3 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' investment in net capital assets for fiscal year 2005 was $37.6 million or 11.2%.

Major capital asset events during fiscal year 2005 included the following:

- Kennedy-King construction of new facilities; construction in progress as of the close of the fiscal year had reached $40.9 million.
- PeopleSoft student administration and enterprise systems implementations and upgrades expenditures of $9.3 million.
- Harold Washington campus renovation cost to date of $27 million.
- Campus energy improvement program cost of $12.6 million.
- Retirement of fully-depreciated equipment of $16.8 million.

For additional information, See Note 5 (Capital Assets).

Debt Administration

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.

As of June 30, 2005, City Colleges had total non-current liabilities of $142.9 million before reduction of current maturities. This amount includes $2.1 million for compensated absences, $31.8 million of accumulated sick leave benefit liability for current and retired employees, and $30.4 million for bonds payable. The remaining debt of $78.6 million represents capital lease obligations with the PBCC. The reduction in debt of $25.1 million is due primarily to the lease payment of $20.8 million.

For additional information, See Note 13 (Changes in Non-Current Liabilities).

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

	2006	2005	Increase (Decrease)	2004	Increase (Decrease)
Accrued compensated absences	$ 2.5	$ 2.1	$ 0.4	$ 1.7	$ 0.4
Sick Leave Benefits	27.3	31.8	(4.5)	34.7	(2.9)
Other post retirement benefits	4.4	-	4.4	-	-
Bonds payable	-	30.4	(30.4)	32.2	(1.8)
Lease obligations	56.1	78.6	(22.5)	99.4	(20.8)
Sub-total	90.3	142.9	(52.6)	168.0	(25.1)
Less current portion	(28.3)	(28.9)	0.6	(27.2)	(1.7)
Total non-current liabilities	$ 62.0	$ 114.0	$ (52.0)	$ 140.8	$ (26.8)

Reclassifications

Certain amounts presented in the 2005 financial statements have been reclassified in Management's Discussion and Analysis in order to be consistent with the presentation of the 2006 financial statements. For additional information, See Note 1.

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.

This page was intentionally left blank

College-Wide Financial Statements

City Colleges of Chicago
Community College District No. 508
Statement of Net Assets
June 30, 2006 and 2005

	2006	Restated 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 5,803,740	$ 13,133,231
Short-term investments	117,124,888	186,111,100
Property tax receivable, net	72,132,337	70,905,811
Personal property replacement tax receivable	2,330,134	1,875,185
Other accounts receivable, net	49,001,969	30,422,796
Prepaid items and other assets	794,263	2,148,607
Total current assets	247,187,331	304,596,730
Non-current assets:		
Restricted cash	4,789,133	8,007,576
Funds held by Public Building Commission	41,954,126	22,936,999
Long-term investments	51,008,792	4,976,365
Restricted investments	36,172,611	42,242,813
Capital assets	603,336,250	586,535,320
Less: Accumulated depreciation	(194,626,987)	(213,237,741)
Total non-current assets	542,633,925	451,461,332
Total assets	789,821,256	756,058,062
Liabilities		
Current Liabilities:		
Accounts payable	7,471,790	15,006,368
Accrued payroll	4,961,742	3,869,720
Other accruals	2,333,822	5,091,888
Deferred salaries	2,332,048	2,998,401
Deposits held in custody for others	2,165,567	1,860,355
Deferred tuition and fees revenue	4,580,151	6,322,288
Deferred property tax revenue	66,489,843	64,230,370
Accrued property tax refunds	18,994,259	17,868,342
Deferred grant revenue	26,926,031	15,683,675
Other liabilities	7,454,213	7,102,096
Current portion of non-current liabilities	28,329,480	28,903,525
Total current liabilities	172,038,946	168,937,028
Non-current liabilities:		
Accrued compensated absences	2,503,498	2,080,036
Sick leave benefits	27,320,200	31,848,737
Other post employment benefits	4,429,624	-
Bonds payable	-	30,399,472
Lease obligations (Less current portion)	27,775,520	49,706,475
Total non-current liabilities	62,028,842	114,034,720
Total liabilities	234,067,788	282,971,748
Net assets		
Invested in capital assets, net of related debt	352,604,264	294,687,579
Restricted for expendable:		
Capital projects	44,140,970	40,141,921
Lease obligation	31,071,292	35,519,213
Other	64,113,553	29,343,965
Unrestricted	63,823,389	73,393,636
Total net assets	$ 555,753,468	$ 473,086,314

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, 2006 and 2005

Revenues	**2006**	**Restated 2005**
Operating revenues:		
Student tuition and fees:		
Resident	$ 52,461,309	$ 48,394,872
Nonresident	3,789,915	4,241,230
Other	11,327,106	11,097,960
Less: Scholarship allowances	(27,658,747)	(25,926,423)
Net student tuition and fees	39,919,583	37,807,639
Other operating revenues	8,277,517	6,245,354
Total operating revenues	48,197,100	44,052,993
Expenses		
Operating expenses:		
Instructional salaries	77,081,414	74,456,743
Non - instructional salaries	79,361,358	71,228,064
Fringe benefits	35,479,612	37,128,733
Supplies	16,133,171	14,984,870
Equipment not capitalized	2,291,005	5,176,669
Utilities	10,373,592	9,291,553
Contractual services	37,894,971	35,254,654
Depreciation	21,810,983	16,800,331
Financial aid, exclusive of scholarship allowance	31,470,269	34,141,440
Other expenses	4,377,241	3,841,210
Total operating expenses	316,273,616	302,304,267
Operating loss	(268,076,516)	(258,251,274)
Nonoperating revenues (expenses):		
State apportionment and equalization	38,580,616	36,692,418
Other state grants and contracts	48,190,000	52,507,309
Local grants and contracts	3,616,535	4,304,120
Local property taxes	101,823,185	90,808,565
Property taxes for lease obligations	29,592,741	35,165,454
Personal property replacement tax	13,307,576	10,499,413
Federal grants and contracts	62,483,048	65,190,589
Building lease and interest payments on debt	(12,687,374)	(12,531,839)
Investment income	8,264,368	4,893,017
Nonoperating revenues, net	293,170,695	287,529,046
Income before capital appropriations and grants	25,094,179	29,277,772
Capital appropriations and grants	57,572,975	53,842,700
Change in net assets	82,667,154	83,120,472
Net assets, beginning of year	473,086,314	389,965,842
Net assets, end of year	$ 555,753,468	$ 473,086,314

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, 2006 and 2005

	2006	Restated 2005
Cash flows from operating activities		
Tuition and fees	$ 35,438,560	$ 39,023,835
Payments to suppliers	(108,605,728)	(86,052,804)
Payments to employees	(155,692,554)	(146,130,049)
Payments to students	(31,470,269)	(34,141,440)
Other	8,277,517	6,245,354
Net cash (used) by operating activities	(252,052,474)	(221,055,104)
Cash flows from noncapital financing activities		
Local property taxes except for capital lease payments	104,510,656	91,139,775
State appropriations	79,618,428	78,195,219
Personal property replacement tax	12,852,627	10,010,604
Grants and contracts	71,927,065	60,542,338
Principal and interest on debt, net	(3,094,309)	(3,863,720)
Net cash provided by noncapital financing activities	265,814,467	236,024,216
Cash flows from capital and related financing activities		
Local property taxes for capital lease payment	29,064,134	35,376,584
Capital lease principal, interest and other	(31,005,514)	(31,064,107)
Bonds payable	(30,973,517)	(136,617)
Capital appropriations and grants	20,773,986	45,301,281
Purchases of capital assets	(49,866,218)	(53,379,142)
Net cash provided by capital and related financing activities	(62,007,129)	(3,902,001)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	256,499,284	160,044,154
Purchase of investments	(227,475,297)	(178,183,009)
Interest received on investments	8,673,215	4,994,265
Net cash (used) by investing activities	37,697,202	(13,144,590)
Net increase (decrease) in cash	(10,547,934)	(2,077,479)
Cash at beginning of year	21,140,807	23,218,286
Cash at end of year	$ 10,592,873	$ 21,140,807
Cash and cash equivalents	$ 5,803,740	$ 13,133,231
Restricted cash	4,789,133	8,007,576
	$ 10,592,873	$ 21,140,807

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, 2006 and 2005

	2006	Restated 2005
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (268,076,516)	$ (258,251,274)
Reconciling adjustments		
Depreciation	21,810,983	16,800,331
State payment for retirement obligation	7,152,188	11,004,508
Changes in net assets:		
Receivables, net	(2,738,886)	1,337,423
Prepaid expenses	426,991	599,884
Accounts payable	(7,534,578)	6,486,918
Accrued payroll	1,092,022	1,459,438
Other accruals	(2,758,066)	577,404
Deferred salaries	(666,353)	629,592
Deposit held in custody for others	305,212	95,849
Deferred tuition and fees	(1,742,137)	(121,227)
Other liabilities	352,117	860,322
Accrued compensated absences	423,462	360,147
Sick leave benefits	(4,528,537)	(2,894,419)
Other post employment benefits	4,429,624	-
Net cash used by operating activities	$ (252,052,474)	$ (221,055,104)

The State of Illinois provided $7,356,449 and $996,698 of in-kind capital assets during the years ended June 30, 2006 and 2005, respectively.

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

This page was intentionally left blank

Notes to Financial Statements

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 were determined not to be 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 0.5% 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.

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 investment with original maturities of three months or less from the date of acquisition, 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.

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 include amounts due from the federal government, state and local governments, in connection with reimbursement of allowable expenditures made pursuant to City Colleges' grants and contracts. Accounts receivable 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 2/100 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.

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. Other assets consist primarily of unamortized bond costs and small amounts of military text books.

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 the college consist of land, building, 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, the institution 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.

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:

Assets	Years
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.

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 represent 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 unrestricted resources when they are needed. It also includes resources that the City Colleges is restricted from spending by statue except if the Board of Trustees decides to eliminate the funds.

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.

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.

T. Prior Period Adjustments and Reclassifications

The table presented on the following page shows the effect of the elements of prior period adjustments and reclassifications of certain fiscal year 2005 balances.

Prior Period Adjustments

Subsequent to the issuance of the June 30, 2005 financial statements, City Colleges of Chicago determined that book store vouchers were misclassified as a component of scholarship allowance instead of financial aid expense. Accordingly, the 2005 financial statements have been restated by $15,917,938 to correct the error and to adjust for the effects of the priority system for the allocation of student aid adopted during fiscal year 2006. Related amounts on the Statement of Cash Flows have been corrected accordingly.

In addition to the above, the misclassification of a portion of restricted cash for fiscal year ended 2005 has been corrected and adjusted to cash and cash equivalents. There was also a misclassification of certain prepaid items and other assets for fiscal year 2005 that has been corrected and adjusted to other accounts receivable. Related amounts on the Statement of Cash Flows have been corrected accordingly.

On the Statement of Cash Flows, Purchase of Capital Assets and Capital Appropriations and Grants have both been corrected and adjusted by $10,793,631, primarily due to a misclassification of Funds Held by PBCC. Additionally, a misclassification of $2,696,016 in State Appropriations was corrected and adjusted from Grants and Contracts ($1,274,471) and Capital Appropriations and Grants of ($1,421,542). All of theses adjustments represent correction of errors.

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

T. Prior Period Adjustments and Reclassifications *(Continued)*

Reclassification

$6,788,260 of the non-instructional salaries financial statement caption for the fiscal year ended June 30, 2005 have been reclassified as instructional salaries due to a change in the definition of instructional salaries expense for financial reporting purposes. City Colleges revised its definition of instructional salaries expense to encompass all salary expenses that support the function of instruction, which includes faculty, department chairpersons, administrators, and support staff. In previous years, the instructional salaries expense did not include administrators and support staff that supported the function of instruction.

The impact of the prior period adjustments and reclassifications is identified in the table below. There was no impact on the change in net assets for fiscal year 2005.

Statement of Net Assets

	6/30/2005 As issued	*Cash/ Restricted*	*Prepaid/ Other accts rec*	*6/30/2005 Restated*
Current assets				
Cash and cash equivalents	$ 13,070,506	$ 62,725	$ -	$ 13,133,231
Other accounts receivable, net	30,133,520	-	289,276	30,422,796
Prepaid items and other assets	2,437,883	-	(289,276)	2,148,607
Non current assets				
Restricted cash	8,070,301	(62,725)	-	8,007,576

Statement of Revenues, Expenses and Changes in Net Assets

	6/30/2005 As issued	*Scholarship/ (Financial aid)*	*Instructional/ Non-instructional*	*6/30/2005 Restated*
Less: Scholarship allowances	(41,844,361)	15,917,938	-	(25,926,423)
Operating expenses				
Instructional salaries	(67,668,483)	-	(6,788,260)	(74,456,743)
Non - instructional salaries	(78,016,324)	-	6,788,260	(71,228,064)
Financial aid, net of scholarship allowance	$ (18,223,502)	$ (15,917,938)	$ -	$ (34,141,440)

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

T. Prior Period Adjustments and Reclassifications *(Continued)*

Statement of Cash Flows

	6/30/2005 As issued	*Reclassification*	*Correction of error*	*6/30/2005 Restated*
Cash flow from operating activities				-
Tuiton and fees	23,395,173	15,628,662		39,023,835
Payments to suppliers	(86,342,077)	289,273		(86,052,804)
Payments to students	(18,223,502)	(15,917,938)		(34,141,440)
Cash flows from noncapital financing activities				
State appropriations	75,499,203		2,696,016	78,195,219
Grants and contracts	61,816,809		(1,274,471)	60,542,338
Cash flows from capital and related financing activities				
Capital appropriations and grants	57,516,455		(12,215,174)	45,301,281
Purchase of capital assets	(64,172,774)		10,793,632	(53,379,142)
Reconciliation of operating loss to net cash used by operating activities				
Receivables, net	1,626,699	(289,276)		1,337,423
Prepaid expenses	310,609	289,275		599,884

U. 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)**

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

U. New Accounting Standards

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.

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.

2. DEPOSITS AND INVESTMENTS *(Continued)*

Deposits with Financial Institutions

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

On June 30, 2006, City Colleges had one uncollateralized deposit for $344,646 pending outstanding checks. On June 30, 2005, City Colleges had one uncollateralized deposit for one day of $3.5 million pending an investment purchase, and two deposits totaling less than $25,000.

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.

Custodial credit risk – relating to investments, 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, 2006 and 2005 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.

2. DEPOSITS AND INVESTMENTS *(Continued)*

Deposits with Financial Institutions *(Continued)*

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, 2006, which approximates fair value, is $204,306,291. The amount at June 30, 2005 was $233,330,278.

2. DEPOSITS AND INVESTMENTS *(Continued)*

Deposits with Financial Institutions *(Continued)*

City Colleges' investments are shown in the following tables:

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

Investment Type	June 30, 2005 Fair Value	Investment Maturities (in years) Less Than 1	1 - 2
US Treasury Obligations (Bills)	$ 10,495,170	$ 10,495,170	$ -
US Treasury Obligations (Notes)	19,026,464	19,026,464	-
Federal Agency Securities	27,260,595	21,648,075	5,612,520
Federal National Mortgage Association	16,845,066	16,845,066	-
Tennessee Valley Authority	10,829,236	-	10,829,236
Illinois Funds (Money Market)	32,163,200	32,163,200	-
Illinois Funds (Prime)	91,286,165	91,286,165	-
Money Market Mutual Funds	25,424,382	25,424,382	-
Total investments	$ 233,330,278	$ 216,888,522	$ 16,441,756

	June 30, 2006	June 30, 2005
Per Statement of Net Assets:		
Cash and cash equivalent	$ 5,803,740	$ 13,133,231
Restricted cash	4,789,133	8,007,576
Total Cash	$ 10,592,873	$ 21,140,807
Investments:		
Short-term investments	$ 117,124,888	$ 186,111,100
Long-term investments	51,008,792	4,976,365
Restricted investments	36,172,611	42,242,813
Total Investments	$ 204,306,291	$ 233,330,278
Per Notes:		
Cash	$ 10,580,769	$ 21,128,503
Petty cash	12,104	12,304
Total Cash	$ 10,592,873	$ 21,140,807
Total Investments	$ 204,306,291	$ 233,330,278

3. OTHER ACCOUNTS RECEIVABLE

City Colleges' other accounts receivable consist of the following:

	June 30	
	2006	2005
Student	$ 9,200,863	$ 4,978,315
Grants	8,070,018	13,862,393
Capital improvement	35,378,332	13,745,669
Other	1,667,872	609,284
Gross other accounts receivable	54,317,085	33,195,661
Less: Allowance for uncollectibles	(5,315,116)	(2,772,865)
Net other accounts receivable	$ 49,001,969	$ 30,422,796

4. RESTRICTED ASSETS

City Colleges' restricted assets consist of the following:

	June 30	
	2006	2005
(A) Cash	$ 4,789,133	$ 8,007,576
(B) Funds held by PBCC	41,954,126	22,936,999
(C) Restricted investments	36,172,611	42,242,813
Total restricted assets	$ 82,915,870	$ 73,187,388

Reserved for:

(A) Financial aid, funds held in trust, and grant funds
(B) Capital construction
(C) Capital lease payment

5. CAPITAL ASSETS

On August 8, 2000, the City of Chicago agreed to provide the funds for a capital improvement program, which includes the construction of Kennedy-King Campus and other capital renovations for City Colleges. The City of Chicago had a balance available of $170,458,028, and $194,368,064 for City Colleges' projects as of June 30, 2006 and 2005, 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 be capitalized. Due to the new policy, all equipment under this threshold was retired, which amounted to $5,796,952 which increased depreciation for the year by $2,086,480.

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.I, retirements in the amount of $34,624,787 were recorded.

5. CAPITAL ASSETS *(Continued)*

Capital asset activity for the years ended June 30, 2006 and 2005 is as follows:

	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	$ 373,297,579	$ 109,311,524	$ (73,899,840)	$ 408,709,263
Cost of buildings and improvements acquired under capital leases (included in total capital assets above)	$ 391,825,192	$ -	$ -	$ 391,825,192

	July 1, 2004	Additions	Retirements and Transfers	June 30, 2005
Capital assets not being depreciated:				
Land	$ 17,388,173	$ -	$ -	$ 17,388,173
Construction work in progress	72,653,608	49,346,487	(34,968,969)	87,031,126
Subtotal	90,041,781	49,346,487	(34,968,969)	104,419,299
Capital assets being depreciated:				
Equipment	25,631,007	5,029,354	(16,829,586)	13,830,775
Software	16,081,153	12,558,526	-	28,639,679
Buildings and improvements	426,685,662	22,410,443	(9,450,538)	439,645,567
Subtotal	468,397,822	39,998,323	(26,280,124)	482,116,021
Total capital assets	558,439,603	89,344,810	(61,249,093)	586,535,320
Accumulated depreciation:				
Equipment	20,988,100	1,306,633	(16,829,586)	5,465,147
Software	9,078,428	4,273,031	-	13,351,459
Buildings and improvements	192,651,006	11,220,667	(9,450,538)	194,421,135
Total accumulated depreciation	222,717,534	16,800,331	(26,280,124)	213,237,741
Capital assets, net	$ 335,722,069	$ 72,544,479	$ (34,968,969)	$ 373,297,579
Cost of buildings and improvements acquired under capital leases (included in total capital assets above)	$ 391,825,192	$ -	$ -	$ 391,825,192

6. NET ASSETS

The Board of Trustees of City Colleges has designated certain unrestricted net assets for capital projects. At June 30, 2005, the Board designated net assets was $6.3 million of which $1.5 million was spent in fiscal year 2006. 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 2006 and 2005. **(See Note 5)**

Obligations under these lease agreements as of June 30, 2006 and June 30, 2005 including principal and interest are as follows:

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

	Principal	Interest	Other	Total
2006	$ 22,505,000	$ 5,464,856	$ 7,200,000	$ 35,169,856
2007	24,410,000	3,481,310	7,275,000	35,166,310
2008	31,695,000	1,220,258	2,250,000	35,165,258
June 30, 2005	$ 78,610,000	$ 10,166,424	$ 16,725,000	$ 105,501,424

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.

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, 2006 and 2005 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 $1,132,030 for the year ended June 30, 2006.
Operating lease expense was $697,656 for the year ended June 30, 2005.

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:

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

June 30, 2005		
2006	$	522,924
2007		538,612
2008		554,770
2009		556,487
2010		570,197
2011 - 2015		2,619,034
June 30, 2005	$	5,362,024

8. OTHER ACCRUALS AND OTHER LIABILITIES

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

	2006	2005
Other accruals		
Accrued interest payable	$ 1,078,300	$ 2,107,693
Accrued for services	902,110	575,465
Accrued for goods	353,412	2,408,730
Total other accruals	$ 2,333,822	$ 5,091,888
Other liabilities		
Self insurance	$ 2,716,632	$ 3,683,508
Unclaimed property	2,161,274	1,888,987
Other	2,576,307	1,529,601
Total other liabilities	$ 7,454,213	$ 7,102,096

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
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 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 will be 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.

In accordance with City Colleges' Board resolution, 50% of property taxes extended for the 2004 tax year and collected in 2005 are recorded as revenue in fiscal year 2005. The remaining revenue related to the 2004 tax year extension was deferred and recorded as revenue in fiscal year 2006. Based upon collection histories, City Colleges recorded real property taxes at 96% of the 2004 extended levy. Accordingly, in fiscal year 2005 City Colleges' reserve for loss and cost has been increased to $2,692,445. Accrued property tax refunds in 2005 increased to $17,868,342.

10. ACCRUED COMPENSATED ABSENCES

At June 30, 2006, City Colleges had recorded a liability of $2,503,498 for compensated absences. At June 30, 2005, the liability was $2,080,036. City Colleges estimates 25% of these liabilities current and due within one year. **(See Note 13)**

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 4%, (2) future payments discounted by 5% interest factor in 2006, a 3.5% interest factor in 2005, 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, 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)**

At June 30, 2005, City Colleges accrued $24,557,307 for the estimated present value of these future retiree benefits for current employees and $7,291,430 in benefits payable to retired employees for a total of $31,848,737. **(See Note 13)**

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. In fiscal year 2006, these bonds and the related warrants were retired at a premium of $1,227,900.

As of June 30, 2005, the bonds matured as shown on the table below:

	Principal	Interest	Total
2006	$ 2,200,000	$ 2,054,070	$ 4,254,070
2007	2,370,000	1,909,970	4,279,970
2008	2,500,000	1,753,550	4,253,550
2009	2,675,000	1,586,050	4,261,050
2010	2,850,000	1,404,150	4,254,150
2011-2015	17,250,000	3,783,500	21,033,500
	29,845,000	12,491,290	42,336,290
Unamortized premium (net)	554,472	-	554,472
June 30, 2005	$ 30,399,472	$ 12,491,290	$ 42,890,762

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

	2006	2005
Assessed Valuation	$ 59,274,592,340	$ 55,309,122,652
Debt Margin Ratio	0.02875	0.02875
Maximum Debt	1,704,144,530	1,590,137,276
Debt balance as of June 30	56,105,000	108,455,000
Remaining Debt Capacity	$ 1,648,039,530	$ 1,481,682,276

13. CHANGES IN NON-CURRENT LIABILITIES

Changes in non-current liabilities for the years ended June 30, 2006 and 2005 are summarized in the table below:

	July 1, 2005	Additions	Reductions	June 30, 2006	Amounts due within one year
Accrued compensated absences	$ 2,080,036	$ 2,985,424	$ (2,561,962)	$ 2,503,498	$ 625,875
Sick leave benefits	31,848,737	(1,181,879)	(3,346,658)	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
	$ 142,938,245	$ 14,654,853	$ (67,234,776)	$ 90,358,322	$ 28,329,480

	July 1, 2004	Additions	Reductions	June 30, 2005	Amounts due within one year
Accrued compensated absences	$ 1,719,889	$ 2,547,066	$ (2,186,919)	$ 2,080,036	$ 520,008
Sick leave benefits	34,743,156	887,892	(3,782,311)	31,848,737	3,678,517
Bonds payable	32,218,928	(119,456)	(1,700,000)	30,399,472	2,200,000
Lease obligations	99,375,000	-	(20,765,000)	78,610,000	22,505,000
	$ 168,056,973	$ 3,315,502	$ (28,434,230)	$ 142,938,245	$ 28,903,525

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.

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 10.77%, 11.12%, and 11.13% of annual covered payroll for fiscal year 2006, 2005, and 2004, respectively. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

14. EMPLOYEE RETIREMENT PENSION PLAN *(Continued)*

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
2006	$ 7,152,188
2005	11,004,508
2004	76,049,885
2003	11,877,545

City Colleges recognized 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 then ended June 30:

Fiscal Year	Amount
2006	$ 1,028,782
2005	790,100
2004	508,757
2003	260,111

15. OTHER POST-EMPLOYMENT BENEFITS

Plan Description: In addition to providing the pension benefits described, 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.

15. OTHER POST-EMPLOYMENT BENEFITS *(Continued)*

Benefits Provided: City Colleges pays approximately 87% 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.

Membership: As of June 30, 2006, membership consisted of:

Retirees and beneficiaries currently receiving benefits	658
Terminated employees entitled to benefits but not yet receiving them	-
Active employees – non-vested	-
Active employees – vested	1,569
TOTAL	2,227

Participating Employers	1

Funding Policy: The contribution percentages are negotiated between City Colleges and the retirees. Currently, City Colleges contributes approximately 87% of the premium. For the fiscal year ended June 30, 2006, City Colleges contributed $8,421,684. City Colleges is not required to and currently does not advance fund the cost of benefits that will become due and payable in the future.

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 2006 were as follows:

Annual OPEB Costs	$12,851,308
Less Employer Contribution	(8,421,684)
Net OPEB Obligation at June 30, 2006	$ 4,429,624
Percentage of Annual OPEB Cost Contributed	65.5%

15. OTHER POST-EMPLOYMENT BENEFITS *(Continued)*

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

Actuarial Value of Assets	$ -
Actuarial Accrued Liability (AAL)	114,673,652
Unfunded Actuarial Accrued Liability (UAAL)	$114,673,652
Funded Ratio (actuarial value of assets/AAL)	-%
Covered Payroll (active plan members)	$ 87,441,937
UAAL as a Percentage of Covered Payroll (AAL less Actuarial Value of Assets / UAAL)	131%

For the fiscal year ending June 30, 2006, 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 11.00%. The actuarial value of assets was not determined as City Colleges has not advance-funded its obligation.

Prior to 2006, City Colleges provided access to certain post-retirement health care benefits for retired employees who meet eligibility requirements. Eligibility varies by employee group, and is based on years of service, age, and, in some cases, being eligible to receive a State Universities Retirement System pension. Post-retirement health care benefits are subsidized by City Colleges for a limited time period, which is generally 10 years after normal retirement or early retirement through age 70. Approximately 1,144 retirees and 661 dependents of retirees were enrolled in the health care program as of June 30, 2005. City Colleges incurred approximately $4.9 million of expenditures in fiscal year 2005, which was offset by retiree contributions and ICCB grant funds. The college financed the Plan on a pay-as-you-go-basis.

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.

16. RISK MANAGEMENT *(Continued)*

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 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 $184,300 and $805,300, as of June 30, 2006 and 2005, 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 $1,266,000 and $1,650,000, as of June 30, 2006 and 2005, 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 accrued. **(See Note 8)**

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 $1,266,332 and $1,228,208 as of June 30, 2006 and 2005, respectively that have been incurred, but not claimed.

Summary of Changes in Self-Insurance

	June 30, 2005	Incurred Claims	Payment on Claims	June 30, 2006	Amounts due within one year
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	1,228,208	22,843,516	(22,805,392)	1,266,332	1,266,332
	$ 3,683,508	$ 23,061,757	$ (24,028,633)	$ 2,716,632	$ 2,716,632

	June 30, 2004	Incurred Claims	Payment on Claims	June 30, 2005	Amounts due within one year
General liability	$ 1,187,417	$ (516,999)	$ 134,882	$ 805,300	$ 805,300
Workers' compensation	959,215	1,044,454	(353,669)	1,650,000	1,650,000
Health insurance	1,356,483	20,957,038	(21,085,313)	1,228,208	1,228,208
	$ 3,503,115	$ 21,484,493	$ (21,304,100)	$ 3,683,508	$ 3,683,508

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

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.

City Colleges has a master plan of construction projects to be completed over the next five years in amounts totaling over $365 million. Funding for these projects will be from the City of Chicago General Obligation Bonds, Series 1999, the State of Illinois through Illinois Community College Board Capital Renewal Grants, the Capital Development Board, and City Colleges' funds restricted and designated for capital projects.

This page was intentionally left blank

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA

Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

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 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, 2006, and have issued our report thereon dated February 1, 2007 which included an emphasis of matter paragraph related to adoption of Governmental Accounting Standards Board Statements No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and For Insurance Recoveries", No. 44, "Economic Condition Statistical Section reporting", No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", No. 46, "Net Assets Restricted by Enabling Legislations", and No. 47, "Accounting for Termination Benefits" and an emphasis of matter paragraph related to a restatement of the 2005 financial statements. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City Colleges' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our audit of the financial statements disclosed the following reportable condition listed in the accompanying Schedule of Findings and Questioned Costs as item 2006-1:

- 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.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City Colleges' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 involving the internal control over financial reporting, which we have reported to management of the City Colleges in a separate letter dated February 1, 2007.

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.

Deloitte + Touche LLP

February 1, 2007

Deloitte.

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA

Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

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 *United States Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal award programs for the year ended June 30, 2006. The City Colleges' major federal award 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 award 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 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 award 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, 2006. 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 Findings 2006-2 and 2006-3.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City Colleges is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal award programs. In planning and performing our audit, we considered the City Colleges' internal control over compliance with requirements that could have a direct and material effect on a major federal award program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving City Colleges' internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect City Colleges' ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grant agreements. The Reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2006-4.

Our consideration of the City Colleges' internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the City Colleges' internal control over compliance and its operation that we consider to be material weaknesses.

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.

Deloitte & Touche LLP

June 11, 2007

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, 2006

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	P063P041341	$ 41,412,827
Federal Supplemental Educational Opportunity Grants Program	84.007	P007A031123	1,564,828
Federal Work-Study Program	84.033	P033A031123	999,632
Total Student Financial Aid Cluster			43,977,287
Passed through the Illinois Community College Board			
Adult Education - State Grants Program			
Adult Education Grant - Basic	84.002	50800	3,383,678
Adult Education Grant - Civic	84.002	50800	507,821
			3,891,499
Passed through the Illinois Community College Board			
Vocational Education - Basic Grant to States (Perkins II) Programs			
Perkins III Grant	84.048	CTEPIG508	3,643,200
Career and Technical Education	84.048	P044A020272	140,000
			3,783,200
TRIO Cluster:			
TRIO - Upward Bound Program			
Upward Bound Grant	84.047A	P047A030703	252,572
Upward Bound Grant	84.047A	P047A030557	235,436
			488,008
TRIO - Educational Opportunity Centers:			
Educational Opportunity Centers Program	84.066A	P066A030289A	251,606
TRIO - Talent Search Program			
Talent Search Grant	84.044A	P066A020178	205,070
Talent Search Grant	84.044A	P044A020815	382,678
			587,748
TRIO- Student Support Services:			
Student Support Services Program	84.042A	P042A010812	111,266.00
Student Support Services Program	84.042A	P042A050726	115,859
Student Support Services Program	84.042A	P042A050311	148,184
Student Support Services Program	84.042A	P042A051218	127,882
Student Support Services Program	84.042A	P042A050804	148,423
Student Support Services Program	84.042A	P042A051235	113,982
			765,596
Total TRIO Cluster			2,092,958
TOTAL EXPENDITURES OF MAJOR PROGRAMS			53,744,944.00

(Continued)

CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2006

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
NONMAJOR PROGRAMS:			
U.S. Department of Education -			
Higher Education - Institutional Aid Program			
Strenthening Institutions - Hispanic Serving Instituitions	84.031S	P031S000072	$ 108,874.00
Strenthening Institutions - Hispanic Serving Instituitions	84.031S	P031S020036	189,924
Collaboration to Imrpove Hispanic Transfer & Degre	84.031S	P031S040011	660,668
			959,466
U.S. Department of Education -			
Fund for the Improvement of Postsecondary Education Program			
Comprehnsive Program - Wrigh	84.116B	P116B030714	162,849
Childcare Access Means Parents in Schools			
Child Care	84.335A	P335A010070	166,918
Passed through Illinois Community College Board			
Tech-Prep Education Program			
Federal Technical Prep. Grant	84.243	05TP5080	495,549
Technical Preparation Support	84.243	05TP5080	64,139
			559,688
U.S. Department of Education -			
Passed through Community College of Allegheny County			
Globalizing Vocational Training program for the Electrical Industry to World Class Standards	84.116		28,999
Passed through Northeastern University			
Gear-up Program			
Gear-up	84.334	P334A990093	273,678
Gear-up	84.334	P334A990093	50,457
			324,135
Passed through Illinois Community College Board			
Passed through Illinois State University			
Illinois Star Reading Project	84.002A	AEL06004	3,725
Passed through Illinois Board of Higher Education			
Passed through Illinois State University			
Chicago Education Teacher Pipeline	84.367B	530009670	17,303
TOTAL EXPENDITURES—U.S. Department of Education (Major and Nonmajor programs)			$ 55,968,027.00
NONMAJOR PROGRAMS (Continued):			
U.S. Department of Health and Human Services			
Bridges to the Baccalaureate: Center of Science Success			
Bridges to the Baccalaureate: Center of Science Success	93.859	5 R25 GM066344	$ 57,118
Bridges to the Baccalaureate: Center of Science Success	93.859	5 R25 GM068939	103,499
			160,617
Grants for Physician Assistant Training Program			
Physician Assistant Training Grant	93.886	3 D57HP05121AO	178,556
NONMAJOR PROGRAMS (Continued):			
U.S. Department of Health and Human Services–			
Passed through the City of Chicago Department of Human Services			
Head Start Program:			
Wrap Around Grant -Child Care Services	93.600	D4952511409	207,847
Wrap Around Grant	93.600	D5952511409	325,400
Child Development Assoc Training Grant	93.600	D4952511409	262,160
Child Development Assoc Training Grant	93.600	D5952511400	274,791
Collaboration Full Day Child Care Grant	93.600	D4952511409	179,053
Collaboration Full Day Child Care Grant	93.600	D5952511409	221,365
			1,470,616

(Continued)

CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2006

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
Passed through Illinois Department of Children and Family Services			
Foster Care - Title III-E Program			
Foster Parent Training Grant	93.658	1061869016	$ 551,273.00
Passed through Illinois Department of Human Services			
Child Care Mandatory and Matching Funds of Child Care Program			
Child Development Center Grant	93.596	10C4001140	119,751
U.S. Department of Health and Human Services			
Passed throught the National Collegiate Athletic Associatior			
National Youth Summer Sport Grant			
Community Services Block Grant - Discretionary Awards (E	93.570	80-8101	221,359
TOTAL EXPENDITURES—U.S. Department of Health an Human Services			$ 2,702,172
NONMAJOR PROGRAMS (Continued):			
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	14-016-5080-51	$ 38,230
Child Care Food Grant	10.558	14-016-5080-51	140,812
			179,042
Passed through Illinois State Board of Education:			
Nat'l Youth Summer Food Program	10.559	4225-00-14-01650851	140,857
TOTAL EXPENDITURES—U.S. Department of Agricultur			$ 319,899
U.S. Department of Labor -			
Passed through Department of Commerce and Economic Opportunity			
Passed through Illinois Community Board			
WIA Incentive -Transportation, Warehousing, Distributior and Logistics Grant	17.267	TWL50806	258,978
Passed through Illinois Community College Boarc			
Blend On-Line Learning	17.267	BL50806	83,000
Passed through Department of Commerce and Economic Opportunity			
Passed through the Mayor's Office of Workforce Development			
Critical Skills Healthcare Preparatory and Dropout Preventior	17.258, 17.259 & 17.260	5062	240,000
Passed through Department of Commerce and Economic Opportunity			
Passed through Purdue University			
TWL - Workforce Preparation Academy	17.258, 17.259 & 17.260	029	124,032
Passed through Department of Commerce and Economic Opportunit			
Passed through CM Workforce			
Critical Skills Shortage Initiative - Healthcare Progran	17.258, 17.260	017	683,821
Passed though Illinois State University			
Intergrated System Technology	17.260	AN-14299-04-60	890
Total WIA Cluster			1,048,743

(Continued)

CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2006

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
NONMAJOR PROGRAMS (Continued):			
U.S. Department of Labor (Continued) -			
Passed through Illinois Department of Commerce and Economic Developmen			
ETIP/SMCC - Multi-Company Option	17.261	06-865003	34,163
TOTAL EXPENDITURES—U.S. Department of Labc			$ 1,424,884
NONMAJOR PROGRAMS (Continued):			
National Science Foundation -			
Collaboration Research for 2 year Colleges:			
Research experiences for undergraduate sit	47.049	CHE-0539214	$ 8,110
Passed through Purdue University (501-1511-01)			
Undergraduate Research Center			
Center for Authentic Science Practice in.	47.049	CHE-0418902	8,000
Passed through Chicago State University:			
Illinois Louis Stokes Alliance for Minority Participation	47.076	53088-0545GR-1245	22,865
Illinois Louis Stokes Alliance for Minority Participation- Supplement	47.076	HRD-0413000	19,092
			41,957
TOTAL EXPENDITURES—National Science Foundation			$ 58,067
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-WPT9	154,647
U.S. Department of Transportation -			
Passed through University of Wisconsin - Madison			
Optiminzation of transportation	20.701	A800354	5,783
U.S. Department of Commerce -			
National Oceanic Atmospheric Assc. - EPP/MS			
Educational Partnership Program (B)	11.481	P0093809	42,005
U.S. Department of the Air Force -			
Combined Analaysis of Functional Interfaces	12.800	F-49620-03-1-0329	128,771
and Surfaces Generated via Deep-Pen Nanolithography			
National Institute of Health			
Passed though Illinois State University			
Central Illinois Bridge Program	93.859	1 R25 GM073603-01	1,788
National Endowment for the Humanities -			
National Great Books Project: Humanities Education for Minority &			
Non-Traditional Community College Students	45.167	EE-50149-04	80,892
TOTAL EXPENDITURES - all non major program			7,141,991
TOTAL EXPENDITURES - ALL PROGRAMS			$ 60,886,935

See accompanying notes to schedule of expenditures of federal awards

(Concluded)

CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT No. 508

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

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 Commerce
- Department of Education
- Department of Health and Human Services
- Department of Homeland Security
- Department of Labor
- Department of Housing and Urban Development
- Department of Transportation
- Department of the Air Force
- 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, 2006.

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 2006 Single Audit are disclosed in the Schedule of Findings and Questioned Costs.

Of the federal expenditures presented in the schedule, the City Colleges provided federal awards to subrecipients under the following programs during the fiscal year ended June 30, 2006:

Program Title	CFDA Number	Grant Reference No.	Amount Provided to Subrecipients
None	N/A	N/A	N/A

* * * * * *

CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRCIT NO. 508
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2006

CITY COLLEGES OF CHICAGO
Community College District No. 508

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

PART I—SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	**Unqualified**	
Internal control over financial reporting:		
• Material weaknesses?	____ Yes	X No
• Reportable conditions identified that are not considered to be material weaknesses?	X Yes	____ N/A
• Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major programs:		
• Material weaknesses?	____ Yes	X No
• Reportable conditions identified that are not considered to be material weaknesses?	X Yes	____ N/A
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

Identification of Major Programs

U.S. Department of Eduction

CFDA Number	Name of Federal Program or Cluster
84.007*	Federal Supplemental Educational Opportunity Grants (FSEOG) Program
84.033*	Federal Work-Study Program
84.063*	Federal Pell Grant Program
84.002	Adult Education Grant - Basic
84.002	Adult Education Grant - Civic
84.048	Vocational Education - Basic Grant to States (Perkins II) Programs: Perkins III Grant
84.048	Career and Technical Education
84.047^	TRIO Upward Bound Program
84.066^	TRIO Educational Opportunity Centers
84.044^	TRIO Talent Serarch Program
84.042^	TRIO Student Support Services

* Student Financial Assistance Cluster

^ TRIO Cluster

- Dollar threshold used to distinguish Type A and Type B programs: $1,826,608
- Auditee qualified as a low-risk auditee? ______ Yes ___X___ No

CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508

PART II—FINANCIAL STATEMENT FINDINGS SECTION
FINDING 2006-1

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.

Cause

There was a lack of analytic review procedures included in the procedure to review draft financial statements to ensure their accuracy and completeness.

Criteria

Sufficient internal controls should be in place to enable the management to report financial data consistent with the assertions of management in a timely manner as per A-133 Compliance Supplement Part 6-L.

Effect

Financial statements are not produced accurately in a timely manner.

Recommendation

Implement analytic review procedures to assure the quality of the work performed to prepare financial statements.

Views of Responsible Officials

We concur with the finding. We will continue to complete monthly analyses 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.

PART III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

FINDING 2006—2 **QUESTIONED COSTS: N/A**
STUDENT FINANCIAL ASSISTANCE CLUSTER—PELL GRANT—CFDA 84.007
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.

Cause

Implementation of R2T4 module in the PeopleSoft Student Account System, which calculates the amount of R2T4 to be returned, was not completed until February 2006. This system is used to assist with the calculation of the amounts to be returned.

Criteria

Return of the Title IV 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).

Context

The expenditures for Student Financial Assistance cluster were approximately $44 million out of total federal expenditures of $61 million. The total population of R2T4 is not known; however, based on our history with the client, we believe the likely amount is over $10,000.

Effect

Delay in the return of federal funds could have resulted in penalties and reduction of future revenue, however, no fines were issued to City Colleges for this instance.

Recommendation

Monitor the operation of the R2T4 module on federal funding requirements and communicate any exceptions in a timely manner to the appropriate department.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

FINDING 2006—3 **QUESTIONED COSTS: $152,742**
STUDENT FINANCIAL ASSISTANCE CLUSTER—PELL GRANT--CFDA 84.007
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.

Cause

The error was due to verbal communication from the Department of Education that for No-Show Withdrawal (NSW) and Administrative Withdrawal (ADW) students, City Colleges of Chicago ("CCC") had the discretion of deciding the date at which to consider the Return of Title IV calculation. When written confirmation was requested from the Department of Education, it was stated that CCC must calculate the Return of Title IV amount from the last date of academic attendance for all applicable students as CCC is an institution that is required to take attendance as per 34 CFR Section 668.22 (b). CCC recalculated Return of Title IV amounts for all NSW and ADW students and as a result, has returned the total known questioned cost of $152,742 to the Department of Education.

Criteria

The amount of earned Title IV grant is calculated by determining the percentage of Title IV grant that has been earned by the student and applying that percentage to the total amount of Title IV grant that was or could have been disbursed to the student for the payment period or period of enrollment as of the student's date.

Context

We noted an error in 10 out of 25 selections or $7,508 out of total selections and $152,742 out of total amounts returned to the Department of Education.

Effect

Understatement of the return of federal funds could deprive other agencies in getting their allocation of the grant in a timely manner.

Recommendation

Obtain written confirmation or documentation from the Department of Education in regards to calculating Return of Title IV amounts to ensure that the appropriate amounts are returned.

Views of Responsible Officials

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

FINDING 2006—4 **QUESTIONED COSTS: N/A**
TRIO CLUSTER—CFDA 84.042, 84.044, 84.047, 84.066
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 in the Department of Education within OMB Circular A-133, Part 4.

Cause

The Department of Education requires that independent documentation be obtained to support the eligibility requirements. City Colleges does not always obtain this documentation from the students.

Criteria

Sufficient internal controls should be in place to verify eligibility requirements noted in 34 CFR sections 643 (TS); 644 (EOC); 645 (UB), and 646 (SSS).

Context

8 of 25 selections were not verified by independent documentation. The total amount of the TRIO cluster awards is $2,092,958.

Effect

Students may receive awards that are not eligible.

Recommendation

City Colleges should make a system-wide policy to obtain and retain independent evidence of all of the eligibility criteria required for the TRIO cluster.

Views of Responsible Officials

Refer to page 69 for management's response and corrective action plan.

CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2006

FINDING 2006—2

Corrective Action Plan

Person Responsible: Aretha Tharps Completion Date: Fiscal 2007

We concur with this finding. 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 identified Return of Title IV Fund 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.

FINDING 2006—3

Corrective Action Plan

Person Responsible: Aretha Tharps Completion Date: Fiscal 2007

We concur with this finding. City Colleges will model its policy after the Federal Government's Code of Federal Regulation related to the treatment of Return of Title IV Fund 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.

FINDING 2006—4

Corrective Action Plan

Person Responsible: Director of Student Services Completion Date: Fiscal 2008

We concur with the 8 noted exceptions. City Colleges 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 Disability Verification Form completed and signed by a certified physician/professional. All applicable documentation will be maintained in the student’s file.

CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRCIT NO. 508
SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

PRIOR-YEAR FINANCIAL STATEMENT FINDINGS

Finding 2005-3

Condition

Closing procedures for financial records and quality control processes to review draft financial statements were not in place to produce timely 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

Refer to the current year finding 2006-1

PRIOR-YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2005-1—CLOSED

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

Condition

In one out of 25 selections for Student Eligibility testing, we noted the student did not earn any units during the Fall 2004 and Spring 2005 semesters and, therefore, did not qualify to receive any financial aid.

Corrective Action Plan

We concur with this finding. The City Colleges of Chicago has implemented a new computer system for fiscal 2006. Continuous testing for such errors is performed in the new system and thus far, no errors have been detected. Program Compliance Officer will continue to review the integrity of the information in the new computer system.

Status

Deloitte & Touche noted no exceptions during fiscal year 2006.

CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRCIT NO. 508

SUMMARY OF PRIOR-YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

Finding 2005-2

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

Condition

In 2 out of 25 selections for Return of Title IV Fund testing, we noted the funds were not returned to Department of Education within 30 days as required by 34 CFR Section 668.22 (j).

Corrective Action Plan

We concur with this finding. The City Colleges of Chicago has implemented a new computer system for fiscal 2006. The District's Student Financial Managers will review and conduct monthly audits on Return of Title IV calculations to ensure that funds are returned within the federal regulatory guidelines.

Status

Refer to the current year finding 2006-2.