City Colleges of Chicago Community College District No. 508

Basic Financial Statements for the Years Ended June 30, 2008 and 2007, 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, 2008

CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508

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PART I

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of City Colleges of Chicago, Community College District No. 508 ("City Colleges") as of and for the years ended June 30, 2008 and 2007, 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 on these basic financial statements 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, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of City Colleges of Chicago, Community College District No. 508 as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on pages 47–48, dated December 22, 2008, on our consideration of City Colleges' internal control over financial reporting and on 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 audits.

The Management's Discussion and Analysis on pages 5 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of City Colleges' management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise City Colleges' basic financial statements. The accompanying schedule of expenditures of federal awards as listed in the foregoing table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such additional information (pages 51 through 56) has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

December 22, 2008

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Management Discussion and Analysis (MD&A)

The discussion and analysis of City Colleges of Chicago (City Colleges) financial performance provides an overall review of City Colleges' financial activities for the years ended June 30, 2008 and 2007. This discussion and analysis focuses on current activities, currently known facts and related changes. The management of City Colleges encourages readers to consider the information being presented herein in conjunction with the transmittal letter, which precedes this section, the basic financial statements and accompanying notes, which immediately follow this section, to enhance their understanding of City Colleges' financial performance. All amounts, unless otherwise indicated, are expressed in millions of dollars. Certain comparative information between the current and prior year is required to be presented in the Management Discussion and Analysis (the "MD&A"). Responsibility for the completeness and fairness of the information presented here rests with City Colleges.

Using This Annual Report

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

Financial Highlights

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

Fiscal year 2008 - Total net assets as of June 30, 2008 increased by $27.8 to $743.0 million.

Current assets decreased by $77.7 million due in part to a $45.6 million decrease in short-term investments, a $25.9 million decrease in property tax receivable, and a $7.1 million decrease in accounts receivable. The $45.6 million decrease in short-term investments was primarily due to a change in the maturity dates of the instruments by our new investment management firm. The $25.9 million decrease in property tax receivable is because City Colleges is no longer collecting taxes for lease payments. The $7.1 million decrease in accounts receivable is due to the decrease in capital improvements receivable related to the Kennedy-King campus.

The investment in capital assets increased by $77.7 million, which was primarily due to the completion of the new Kennedy-King campus. In fiscal year 2008, $46.0 million in buildings and building improvements were retired, with a corresponding decrease in accumulated depreciation, in order to recognize the removal of parts of buildings that were remodeled.

The other non-current assets increased by $17.4 million due to the transfer of $50.1 million in investments from short-term to long-term, which was offset by a $24.2 million decrease in restricted investments as well as an $8.6 million decrease in the funds held by the Public Building Commission of Chicago. The $24.2 million decrease in restricted investments was due to the final lease payment made from these investments.

Total current liabilities decreased by $46.1 million primarily due to the payoff of $31.7 million in current leases, a $12.0 million decrease in deferred property tax revenue, as well as a $3.5 million decrease in accrued property tax refunds. Total non-current liabilities increased by $3.9 million due to a $3.4 million increase in other post-employment benefits, and a $0.5 million increase in other liabilities.

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

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

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

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

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

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

	2008	2007	Increase (Decrease)	2006	Increase (Decrease)
Current assets	$ 253.7	$ 331.4	$ (77.7)	$ 247.2	$ 84.2
Non-current assets					
Capital assets	756.7	729.8	26.9	603.3	126.5
Less accumulated depreciation	(187.0)	(206.1)	19.1	(194.6)	(11.5)
Other assets	77.8	60.4	17.4	133.9	(73.5)
Total assets	$ 901.2	$ 915.5	$ (14.3)	$ 789.8	$ 125.7
Current liabilities	$ 124.5	$ 170.6	$ (46.1)	$ 172.0	$ (1.4)
Non-current liabilities	33.6	29.7	3.9	62.0	(32.3)
Total liabilities	$ 158.1	$ 200.3	$ (42.2)	$ 234.0	$ (33.7)
Net assets					
Invested in capital assets, net of related debt	$ 569.7	$ 492.0	$ 77.7	$ 352.6	$ 139.4
Restricted for expendable:					
Capital projects	28.8	53.0	(24.2)	44.1	8.9
Lease obligation	-	23.8	(23.8)	31.1	(7.3)
Other	72.1	69.0	3.1	64.1	4.9
Unrestricted	72.4	77.4	(5.0)	63.9	13.5
Total net assets	$ 743.0	$ 715.2	$ 27.8	$ 555.8	$ 159.4

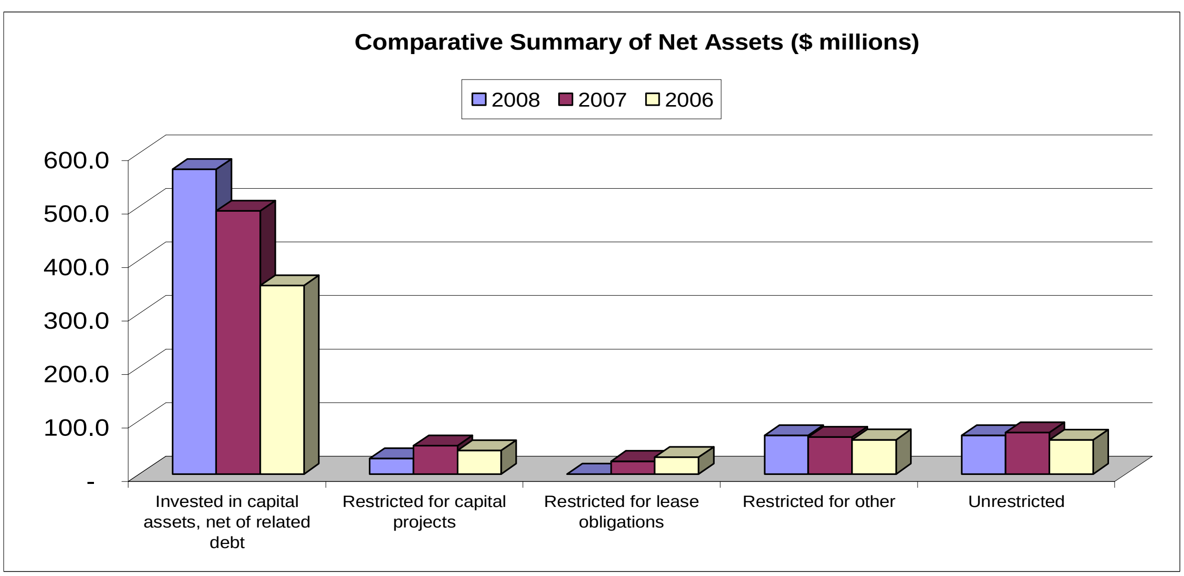

Table 2
Revenues, Expenses and Changes in Net Assets
(in millions of dollars)

Operating	**2008**	**2007**	**Increase (Decrease)**	**2006**	**Increase (Decrease)**
Revenues	$ 44.8	$ 42.5	$ 2.3	$ 48.2	$ (5.7)
Expenses	(390.0)	(325.5)	64.5	(316.3)	9.2
Operating loss	(345.2)	(283.0)	62.2	(268.1)	14.9
Non-operating					
Revenues	321.4	323.9	(2.5)	305.9	18.0
Expenses	(2.0)	(6.9)	(4.9)	(12.7)	(5.8)
Net non-operating revenue	319.4	317.0	2.4	293.2	23.8
(Loss) income before capital contributions	(25.8)	34.0	(59.8)	25.1	8.9
Capital contributions	53.6	125.4	(71.8)	57.6	67.8
Change in net assets	27.8	159.4	(131.6)	82.7	76.7
Net assets, beginning of year	715.2	555.8	159.4	473.1	82.7
Net assets, end of year	$ 743.0	$ 715.2	$ 27.8	$ 555.8	$ 159.4

Fiscal year 2008 - In fiscal year 2008, income before capital contributions decreased by $59.8 million for the year. Operating revenues increased by $2.3 million due to an increase in net tuition and fees. Operating expenses increased by $64.5 million due to a $10.7 million increase in staffing costs, a $10.1 million increase in fringe benefits, and a $22.7 million increase in equipment not capitalized, a $2.0 million increase in utilities, a $8.7 million increase in contractual services, a $6.5 increase in depreciation, and a $6.6 million increase in financial aid. These increases caused an increase in the operating loss of $62.2 million.

Net non-operating revenues increased by $2.4 million due to a $4.5 million increase in other state grants, a $6.1 million increase in local property taxes, a $6.6 million increase in federal grants, and a $4.9 million decrease in lease and interest payments, which were offset by a $1.7 million decrease in state apportionment, a $16.2 million decrease in property taxes for lease obligations, and a $2.0 million decrease in investment income.

Fiscal year 2007 - In fiscal year 2007, income before capital contributions increased by $8.9 million for the year. Operating revenues decreased by $5.7 million due to a $4.6 decrease in net tuition and fees and a $1.1 million decrease in other operating revenues. Operating expenses increased by $9.2 million due to an $8.7 million increase in staffing costs, a $3.1 million increase in fringe benefits, and a $4.3 million increase in supplies, offset by a $5.4 million decrease in. financial aid, and a $1.6 million decrease in other operating expenses. This caused an increase in the operating loss of $14.9 million.

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

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

Operating revenues:	**2008**	**2007**	**Increase (Decrease)**	**2006**	**Increase (Decrease)**
Student tuition and fees	$ 75.3	$ 69.5	$ 5.8	$ 67.6	$ 1.9
Less scholarships	(37.5)	(34.1)	(3.4)	(27.6)	(6.5)
Other operating	7.0	7.1	(0.1)	8.2	(1.1)
Total operating revenues	44.8	42.5	2.3	48.2	(5.7)
Non-operating revenues:					
State apportionment and equalization	39.8	41.5	(1.7)	38.6	2.9
Other state grants and contracts	59.4	54.9	4.5	48.2	6.7
Local grants and contracts	4.1	4.9	(0.8)	3.6	1.3
Local property taxes	113.2	107.1	6.1	101.8	5.3
Property taxes for lease obligations	13.9	30.1	(16.2)	29.6	0.5
Personal property replacement tax	15.5	14.5	1.0	13.3	1.2
Federal grants and contracts	64.2	57.6	6.6	62.5	(4.9)
Investment income	11.3	13.3	(2.0)	8.3	5.0
Total non-operating revenues	321.4	323.9	(2.5)	305.9	18.0
Capital appropriations and grants	53.6	125.4	(71.8)	57.6	67.8
Total revenues	$ 419.8	$ 491.8	$ (72.0)	$ 411.7	$ 80.1

Operating and Non-operating
Revenue by Source
For the year ended June 30, 2008

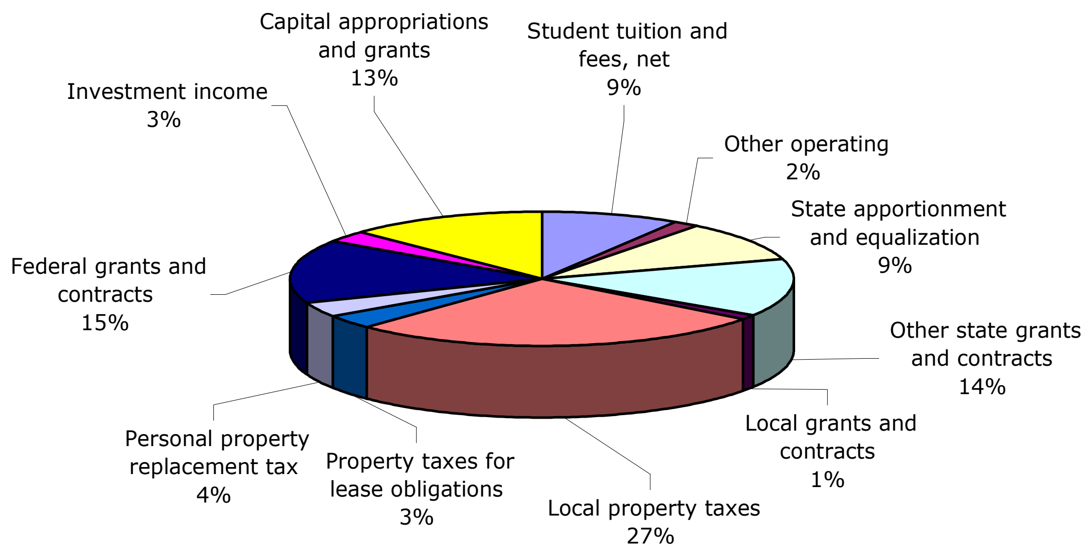

Table 4
Operating and Non-operating Functional Expenses
(in millions of dollars)

	2008	2007	Increase (Decrease)	2006	Increase (Decrease)
Operating Expense					
Instruction	$ 105.0	$ 99.7	$ 5.3	$ 97.1	$ 2.6
Academic support	31.7	30.3	1.4	27.9	2.4
Student services	29.6	28.0	1.6	25.4	2.6
Public service	9.9	10.9	(1.0)	9.4	1.5
Organized research	0.7	0.6	0.1	0.2	0.4
Operations and maintenance of plant	61.4	31.1	30.3	35.2	(4.1)
Institutional support	89.8	77.5	12.3	66.7	10.8
Financial aid	32.6	26.0	6.6	31.4	(5.4)
Auxiliary	2.1	0.7	1.4	1.2	(0.5)
Depreciation	27.2	20.7	6.5	21.8	(1.1)
Total Operating Expenses	390.0	325.5	64.5	316.3	9.2
Non-operating expenses					
Building lease and debt expense	2.0	6.9	(4.9)	12.7	(5.8)
Total Expenses	$ 392.0	$ 332.4	$ 59.6	$ 329.0	$ 3.4

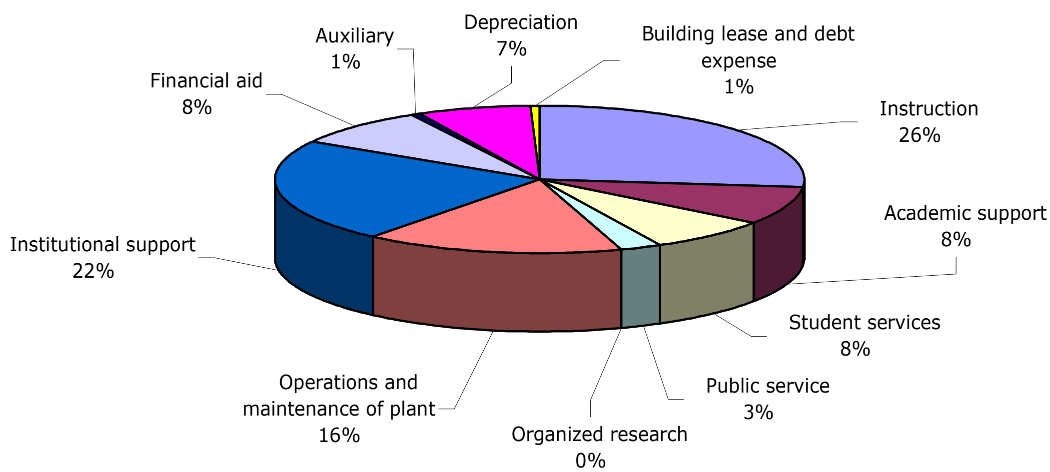

Table 5
Capital Assets (Net of accumulated depreciation)
As of June 30
(in millions of dollars)

	2008	2007	Increase (Decrease)	2006	Increase (Decrease)
Capital Assets					
Land	$ 49.0	$ 19.6	$ 29.4	$ 17.4	$ 2.2
Buildings and improvements	643.0	488.9	154.1	478.4	10.5
Construction in progress	18.4	182.7	(164.3)	70.2	112.5
Equipment	16.8	9.9	6.9	8.7	1.2
Software	28.8	28.7	0.1	28.6	0.1
Vehicles	0.7	-	0.7	-	-
Total	756.7	729.8	26.9	603.3	126.5
Less accumulated depreciation	(187.0)	(206.1)	19.1	(194.6)	(11.5)
Net capital assets	$ 569.7	$ 523.7	$ 46.0	$ 408.7	$ 115.0

Capital Assets

Fiscal year 2008 - As of June 30, 2008, City Colleges had $756.7 million in capital assets, $187.0 million in accumulated depreciation, and $569.7 million in net capital assets. This investment in net capital assets includes land, buildings and improvements, construction in progress, equipment, vehicles and software. The total increase in City Colleges' net capital assets for the current fiscal year was $46.0 million, or 8.8%. **(See Note 5)**

Major capital asset events during fiscal year 2008 included the following:

- The completion of the new Kennedy-King campus. The total cost as of the close of the fiscal year reached $250.1 million.
- A net increase of $154.1 million in buildings and improvements was due to a $200.1 million increase for building renovations, offset by a retirement of $46.0 million in fully-depreciated building infrastructure.

<u>Capital Assets</u> *(Continued)*

Fiscal year 2007 - As of June 30, 2007, City Colleges had $729.8 million in capital assets, $206.1 million in accumulated depreciation, and $523.7 million in net capital assets. This investment in net capital assets includes land, buildings, and improvements; construction in progress; equipment; and software. The total increase in City Colleges' net capital assets for the current fiscal year was $115.0 million, or 28.1%. **(See Note 5)**

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

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

<u>Non-current Liabilities</u>

Fiscal year 2008 - As of June 30, 2008, City Colleges had total non-current liabilities of $36.3 million before reduction of current maturities. This amount includes $2.7 million for compensated absences, $20.5 million of accumulated sick leave benefit liability for current employees and $13.1 million of other post employment benefits for retired employees.
(See Note 13)

Fiscal year 2007 - As of June 30, 2007, City Colleges had total non-current liabilities of $64.2 million before reduction of current maturities. This amount includes $2.6 million for compensated absences, $20.2 million of accumulated sick leave benefit liability for current employees and $9.7 million of other post employment benefits for retired employees. The remaining debt of $31.7 million represents capital lease obligations with the PBCC. The reduction of this debt is due to lease payments totaling $24.4 million. **(See Note 7)**

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

	2008	2007	Increase (Decrease)	2006	Increase (Decrease)
Accrued compensated absences	$ 2.7	$ 2.6	$ 0.1	$ 2.5	$ 0.1
Sick leave benefits	20.5	20.2	0.3	27.3	(7.1)
Other post retirement benefits	13.1	9.7	3.4	4.4	5.3
Lease obligations	-	31.7	(31.7)	56.1	(24.4)
Sub-total	36.3	64.2	(27.9)	90.3	(26.1)
Less current portion	(2.7)	(34.5)	31.8	(28.3)	(6.2)
Total non-current liabilities	$ 33.6	$ 29.7	$ 3.9	$ 62.0	$ (32.3)

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 West Jackson Boulevard, Chicago, IL 60606.

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College-Wide Financial Statements

City Colleges of Chicago
Community College District No. 508
Statement of Net Assets
June 30, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 5,293,309	$ 4,224,188
Short-term investments	186,758,238	232,318,400
Property tax receivable, net	49,213,838	75,072,969
Personal property replacement tax receivable	2,342,384	2,563,249
Other accounts receivable, net	10,042,034	17,100,741
Prepaid items and other assets	4,092	104,292
Total current assets	253,653,895	331,383,839
Non-current assets:		
Restricted cash	6,031,812	5,948,146
Funds held by Public Building Commission	16,325,337	24,893,296
Long-term investments	54,467,781	4,381,941
Restricted investments	936,619	25,190,240
Capital assets	756,706,259	729,777,010
Less: Accumulated depreciation	(186,971,382)	(206,074,196)
Total non-current assets	647,496,426	584,116,437
Total assets	901,150,321	915,500,276
Liabilities		
Current Liabilities:		
Accounts payable	16,253,573	10,291,903
Accrued payroll	6,260,779	5,572,138
Other accruals	951,341	2,838,206
Deferred salaries	2,750,526	2,712,214
Deposits held in custody for others	1,946,979	2,126,815
Deferred tuition and fees revenue	5,053,003	4,788,373
Deferred property tax revenue	56,367,302	68,397,262
Accrued property tax refunds	14,964,344	18,498,179
Deferred grant revenue	6,280,745	12,832,655
Other liabilities	10,971,622	8,093,975
Current portion of non-current liabilities	2,691,450	34,490,360
Total current liabilities	124,491,664	170,642,080
Non-current liabilities:		
Accrued compensated absences	2,694,295	2,567,291
Sick leave benefits	20,499,936	20,194,545
Other post employment benefits	13,119,012	9,659,093
Lease obligations	-	31,695,000
Less current portion of non-current liabilities	(2,691,450)	(34,490,360)
Total non-current liabilities	33,621,793	29,625,569
Total liabilities	158,113,457	200,267,649
Net assets		
Invested in capital assets, net of related debt	569,734,877	492,006,098
Restricted for expendable:		
Capital projects	28,768,926	53,039,227
Lease obligations	-	23,795,853
Working Cash	66,153,427	63,733,216
Specifice Purposes	6,584,970	5,299,487
Unrestricted	71,794,664	77,358,746
Total net assets	$ 743,036,864	$ 715,232,627

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, 2008 and 2007

Revenues	**2008**	**2007**
Operating revenues:		
Student tuition and fees:		
Resident tuition	$ 52,611,578	$ 51,441,016
Nonresident tuition	8,983,671	5,608,592
Fees	13,681,471	12,463,794
Less: Scholarship allowances	(37,497,635)	(34,160,855)
Net student tuition and fees	37,779,085	35,352,547
Other operating revenues	6,997,724	7,130,296
Total operating revenues	44,776,809	42,482,843
Expenses		
Operating expenses:		
Instructional salaries	81,587,686	79,978,494
Non - instructional salaries	94,272,264	85,211,555
Fringe benefits	48,646,332	38,573,600
Supplies	17,756,862	18,458,080
Professional development	2,294,480	2,285,888
Equipment not capitalized	25,457,028	2,775,642
Utilities	12,565,805	10,558,453
Contractual services	45,368,250	36,639,498
Depreciation	27,231,445	20,667,118
Financial aid, exclusive of scholarship allowances	32,612,287	26,031,017
Other expenses	2,203,370	4,255,320
Total operating expenses	389,995,809	325,434,665
Operating loss	(345,219,000)	(282,951,822)
Nonoperating revenues (expenses):		
State apportionment and equalization	39,808,436	41,498,443
Other state grants and contracts	59,444,571	54,901,471
Local grants and contracts	4,073,193	4,900,467
Local property taxes	113,234,703	107,099,097
Property taxes for lease obligations	13,912,993	30,099,651
Personal property replacement tax	15,525,950	14,518,747
Federal grants and contracts	64,170,398	57,549,889
Investment income	11,293,733	13,311,136
Building lease and interest payments on debt	(2,016,881)	(6,873,136)
Nonoperating revenues, net	319,447,096	317,005,765
Income before capital appropriations and grants	(25,771,904)	34,053,943
Capital appropriations and grants	53,576,141	125,425,216
Change in net assets	27,804,237	159,479,159
Net assets, beginning of year	715,232,627	555,753,468
Net assets, end of year	$ 743,036,864	$ 715,232,627

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, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Tuition and fees	$ 38,015,686	$ 36,832,165
Payments to suppliers	(128,520,193)	(87,797,749)
Payments to employees	(177,718,719)	(175,507,661)
Payments to students	(32,612,287)	(26,031,017)
Other	6,997,724	7,130,296
Net cash (used) by operating activities	(293,837,789)	(245,373,966)
Cash flows from noncapital financing activities		
Local property taxes except for capital lease payments	123,157,655	101,644,239
State appropriations	84,552,555	85,666,887
Personal property replacement tax	15,746,815	14,285,632
Grants and contracts	68,189,441	64,629,609
Net cash provided by noncapital financing activities	291,646,466	266,226,367
Cash flows from capital and related financing activities		
Local property taxes for capital lease payments	14,285,377	34,025,216
Capital lease principal, interest and other	(33,915,257)	(32,158,060)
Capital appropriations and grants	60,242,661	155,900,871
Purchases of capital assets	(68,766,650)	(134,718,291)
Net cash (used) provided by capital and related financing activities	(28,153,869)	23,049,736
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,282,711,632	30,584,515
Purchases of investments	(1,262,983,689)	(88,168,805)
Interest received on investments	11,770,036	13,261,614
Net cash provided (used) by investing activities	31,497,979	(44,322,676)
Net increase in cash	1,152,787	(420,539)
Cash and cash equivalents at beginning of year	10,172,334	10,592,873
Cash and cash equivalents at end of year	$ 11,325,121	$ 10,172,334
Cash and cash equivalents	$ 5,293,309	$ 4,224,188
Restricted cash	6,031,812	5,948,146
	$ 11,325,121	$ 10,172,334
Noncash Transactions		
State payments on behalf of fringe benefits	14,700,452	10,733,027
State payment for construction	2,490,418	942,378
Increase (decrease) in fair market value of investments	303,085	563,529

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

City Colleges of Chicago
Community College District No. 508
Statement of Cash Flows *(Continued)*
For the fiscal years ended June 30, 2008 and 2007

	2008	2007
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (345,219,000)	$ (282,951,822)
Depreciation	27,231,445	20,667,118
State payment for retirement obligation	14,700,452	10,733,027
Changes in net assets:		
Receivables, net	(504,332)	1,271,396
Prepaid items and other assets	100,200	739,493
Accounts payable	4,573,818	2,820,113
Accrued payroll	688,641	610,396
Other accruals	(2,302,077)	1,379,308
Deferred salaries	38,312	380,166
Deposits held in custody for others	(179,836)	(38,752)
Deferred tuition and fees revenue	264,630	208,222
Other liabilities	2,877,647	639,762
Accrued compensated absences	127,004	63,793
Sick leave benefits	305,391	(7,125,655)
Other post employment benefits	3,459,919	5,229,469
Net cash (used) by operating activities	$ (293,837,789)	$ (245,373,966)

The State of Illinois provided $2,490,418 and $942,378 of in-kind capital assets during the years ended June 30, 2008 and 2007, respectively.

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

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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 are not reflected in these financial statements as component units of City Colleges. The resources of PBCC are not received or held entirely or almost entirely for City Colleges, nor can City Colleges access a majority of PBCC's resources. The City Colleges of Chicago Foundation's resources are equivalent to less than 0.66% 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 investments with original maturities of three months or less from the date of purchase, except for Illinois funds and money market mutual funds, which are treated as investments.

D. Investments

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

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term that could materially affect the amounts reported in the statements of financial position and in the statements of activities.

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

E. Receivables

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

F. Allowance for Uncollectibles

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

G. Property Taxes

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

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

In accordance with City Colleges' Board resolution, 50% of property taxes extended for the 2007 tax year and collected in 2008 are recorded as revenue in fiscal year 2008. The remaining revenue related to the 2007 tax year extension was deferred and will be recorded as revenue in fiscal year 2009. Based upon collection histories, City Colleges recorded real property taxes at 96% of the 2007 extended levy.

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

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.

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.

J. Restricted Cash and Investments

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

K. Capital Assets

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

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

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

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

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

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

K. Capital Assets *(Continued)*

capital assets and accumulated depreciation, using a deflated replacement cost methodology.

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

Assets	Years
Buildings and improvements	40
Computer Equipment	4
Vehicles	5
Software	3
Other equipment	3 - 10

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

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

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

P. Classification of Revenues and Expenses

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

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

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

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. New Accounting Standard

GASB Statement No. 50, *Pension Disclosures* which amends GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employees*, is effective for financial statements for periods beginning after June 15, 2007. In fiscal year 2008, 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.

Deposits

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

Investments

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

2. DEPOSITS AND INVESTMENTS *(Continued)*

Investments *(Continued)*

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

Concentration of credit risk – At June 30, 2008 and 2007 respectively, City Colleges had greater than five percent of its overall portfolio invested in the Illinois Funds. This is in accordance with City Colleges' investment policy, which does not contain any specific guidelines on the diversification of the investment portfolio.

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

Investments are commingled in order to maximize earnings

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

The carrying amount of its investments at June 30, 2008, which approximates fair value, is $242,162,638. The amount at June 30, 2007 was $261,890,581.

2. DEPOSITS AND INVESTMENTS *(Continued)*

Investments *(Continued)*

City Colleges' investments are shown in the following tables:

Investment Type	S&P Rating	June 30, 2008 Fair Value	Investment Maturities (in years) Less Than 1	Greater Than 1
US Treasury Obligations	AAA	$ 11,903,417	$ 694,503	$ 11,208,914
Federal Agency Securities	AAA	57,910,317	44,877,361	13,032,956
Federal National Mortgage Assoc.	AAA	37,746,321	19,241,980	18,504,341
Illinois Funds (Money Market)	AAAm	18,437,011	18,437,011	-
Illinois Funds (Prime)	AAAm	64,035,560	64,035,560	-
Money Market Mutual Funds	n/a	936,619	936,619	-
Commercial Paper	A-1+	51,193,393	51,193,393	-
Total investments		$ 242,162,638	$ 199,416,427	$ 42,746,211

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

n/a - not available

Per Statement of Net Assets:

	June 30, 2008	June 30, 2007
Investments:		
Short-term investments	$ 186,758,238	$ 232,318,400
Long-term investments	54,467,781	4,381,941
Restricted investments	936,619	25,190,240
Total Investments	$ 242,162,638	$ 261,890,581

3. OTHER ACCOUNTS RECEIVABLE

City Colleges' other accounts receivable consist of the following:

	June 30	
	2008	2007
Student	$ 7,171,821	$ 9,367,314
Grants	5,731,781	5,880,134
Capital improvement	-	6,938,384
Other	1,386,920	1,345,241
Gross other accounts receivable	14,290,522	23,531,073
Less: Allowance for uncollectibles	(4,248,488)	(6,430,332)
Net other accounts receivable	$ 10,042,034	$ 17,100,741

4. RESTRICTED ASSETS

City Colleges' restricted assets consist of the following:

	June 30	
	2008	2007
(A) Cash	$ 6,031,812	$ 5,948,146
(B) Funds held by PBCC	16,325,337	24,893,296
(C) Restricted investments	936,619	25,190,240
Total restricted assets	$ 23,293,768	$ 56,031,682

Restricted for:

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

5. CAPITAL ASSETS

On August 8, 2000, the City of Chicago agreed to provide the funds for a capital improvement program, which included the construction of Kennedy-King Campus and other capital renovations. The City of Chicago had a balance available of $15,302,137 and $15,950,093 for City Colleges' projects as of June 30, 2008 and 2007, 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 fiscal year 2008. **(See Note 4)**

In fiscal year 2008, the new Kennedy-King campus and renovations district-wide were completed which had a life to date cost of $229,432,541. In accordance with the policy explained in Note 1.K, retirements in the amount of $46,334,258 were recorded.

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

5. CAPITAL ASSETS *(Continued)*

	July 1, 2007	Additions and Transfers In	Retirements and Transfers Out	June 30, 2008
Capital assets not being depreciated:				
Land	$ 19,574,040	$ 29,414,507	$ -	$ 48,988,547
Construction work in progress	182,702,679	72,200,187	(236,481,045)	18,421,821
Subtotal	202,276,719	101,614,694	(236,481,045)	67,410,368
Capital assets being depreciated:				
Vehicles	586,630	154,552	-	741,182
Equipment	9,323,074	7,510,355	-	16,833,429
Software	28,694,279	39,989	-	28,734,268
Buildings and improvements	488,896,308	200,424,962	(46,334,258)	642,987,012
Subtotal	527,500,291	208,129,858	(46,334,258)	689,295,891
Total capital assets	729,777,010	309,744,552	(282,815,303)	756,706,259
Accumulated depreciation:				
Vehicles	93,948	104,692	-	198,640
Equipment	5,079,133	2,467,388	-	7,546,521
Software	22,379,301	3,417,037	-	25,796,338
Buildings and improvements	178,521,814	21,242,327	(46,334,258)	153,429,883
Total accumulated depreciation	206,074,196	27,231,444	(46,334,258)	186,971,382
Capital assets, net	$ 523,702,814	$ 282,513,108	$ (236,481,045)	$ 569,734,877
Cost of buildings and improvements acquired under capital leases (included in total capital assets above)	$ 391,825,192	$ -	$ -	$ 391,825,192

	July 1, 2006	Additions and Transfers In	Retirements and Transfers Out	June 30, 2007
Capital assets not being depreciated:				
Land	$ 17,388,173	$ 2,185,867	$ -	$ 19,574,040
Construction work in progress	70,201,658	134,452,565	(21,951,544)	182,702,679
Subtotal	87,589,831	136,638,432	(21,951,544)	202,276,719
Capital assets being depreciated:				
Equipment	8,756,202	1,153,502	-	9,909,704
Software	28,639,679	54,600	-	28,694,279
Buildings and improvements	478,350,538	19,765,679	(9,219,909)	488,896,308
Subtotal	515,746,419	20,973,781	(9,219,909)	527,500,291
Total capital assets	603,336,250	157,612,213	(31,171,453)	729,777,010
Accumulated depreciation:				
Equipment	3,375,246	1,797,835	-	5,173,081
Software	18,722,091	3,657,210	-	22,379,301
Buildings and improvements	172,529,650	15,212,073	(9,219,909)	178,521,814
Total accumulated depreciation	194,626,987	20,667,118	(9,219,909)	206,074,196
Capital assets, net	$ 408,709,263	$ 136,945,095	$ (21,951,544)	$ 523,702,814
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. In fiscal year 2008, $15.5 million was designated from current personal property taxes and $3.3 million from the bond fund for an ending balance of $48.6 million. In fiscal year 2007, $14.0 million was designated from the education fund, $6.2 million from the personal property taxes, and $3.4 million from the bond fund that was paid off during the year for an ending balance of $49.8 million.

7. LEASES

A. Capital Leases

City Colleges had 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 years 2008 and 2007. **(See Note 5)**

Obligations under these lease agreements were paid off during fiscal year 2008.

The obligations as of June 30, 2007 including principal and interest were as follows:

	Principal	Interest	Other	Total
June 30, 2007	$ 31,695,000	$ 1,220,258	$ 2,250,000	$ 35,165,258

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. <u>LEASES</u> *(Continued)*

A. <u>Capital Leases</u> *(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, 2008 and 2007 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. <u>Operating Leases</u>

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 $2,052,750 for the year ended June 30, 2008 compared to $1,497,185 for the year ended June 30, 2007.

7. LEASES *(Continued)*

B. Operating Leases *(Continued)*

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

June 30, 2008		
2009		556,487
2010		570,197
2011		587,303
2012		604,922
2013		623,761
2014 - 2015		803,740
June 30, 2008	$	3,746,410

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

8. OTHER ACCRUALS AND OTHER LIABILITIES

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

	2008	2007
Other accruals		
Accrued interest payable	$ -	$ 203,376
Accrued for services	947,890	2,588,692
Accrued for goods	3,451	8,157
Property taxes	-	37,981
Total other accruals	$ 951,341	$ 2,838,206
Other liabilities		
Self insurance	$ 5,641,827	$ 3,961,775
Unclaimed property	3,435,662	2,858,282
Other	1,894,133	1,273,918
Total other liabilities	$ 10,971,622	$ 8,093,975

9. 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
2007	$73,605,314,512	$5,841,665
2006	69,473,229,020	6,071,637
2005	59,268,296,045	6,296,295
2004	55,302,579,309	6,543,343
2003	53,137,668,356	6,792,347

In fiscal year 2008, City Colleges' reserve for loss and cost was $2,153,568. Accrued property tax refunds in 2008 decreased to $14,964,344. In fiscal year 2007, City Colleges' reserve for loss and cost was $2,804,214. Accrued property tax refunds in 2007 decreased to $18,498,179.

Accrued property tax refunds are based on a ten-year historical trend analysis of back taxes paid, and this is how City Colleges determines how much is needed in the future.

10. ACCRUED COMPENSATED ABSENCES

At June 30, 2008, City Colleges had recorded a liability of $2,694,295 for compensated absences, and estimated that $147,109 of these liabilities are current and due within one year. At June 30, 2007, the liability was $2,567,291 for which City Colleges estimated that $140,174 of these liabilities were 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 5.0%, (2) future payments discounted by a 4.5% interest factor in 2008, 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, 2008, City Colleges accrued $16,049,440 for the estimated present value of these future retiree benefits for current employees and $4,450,496 in benefits payable to retired employees for a total of $20,499,936.

At June 30, 2007, City Colleges accrued $16,598,357 for the estimated present value of these future retiree benefits for current employees and $3,596,188 in benefits payable to retired employees for a total of $20,194,545. **(See Note 13)**

12. BONDS PAYABLE

As of June 30, 2008, there were no bonds outstanding.

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

	2008	2007
Assessed Valuation	$ 73,611,156,177	$ 69,479,300,657
Debt Margin Ratio	0.02875	0.02875
Maximum Debt	2,116,320,740	1,997,529,894
Debt balance as of June 30	-	31,695,000
Remaining Debt Capacity	$ 2,116,320,740	$ 1,965,834,894

13. CHANGES IN NON-CURRENT LIABILITIES

Changes in non-current liabilities for the years ended June 30, 2008 and 2007 are summarized in the table below:

	July 1, 2007	Additions	Reductions/ Adjustments	June 30, 2008	Amounts due within one year
Accrued compensated absences	$ 2,567,291	$ 3,199,938	$ (3,072,934)	$ 2,694,295	$ 147,109
Sick leave benefits	20,194,545	3,145,121	(2,839,730)	20,499,936	2,544,341
Other post retirement benefits	9,659,093	9,958,539	(6,498,620)	13,119,012	-
Lease obligations	31,695,000	-	(31,695,000)	-	-
	$ 64,115,929	$ 16,303,598	$ (44,106,284)	$ 36,313,243	$ 2,691,450

	July 1, 2006	Additions	Reductions/ Adjustments	June 30, 2007	Amounts due within one year
Accrued compensated absences	$ 2,503,498	$ 3,578,782	$ (3,514,989)	$ 2,567,291	$ 140,174
Sick leave benefits	27,320,200	(4,310,106)	(2,815,549)	20,194,545	2,655,186
Other post retirement benefits	4,429,624	12,792,179	(7,562,710)	9,659,093	-
Lease obligations	56,105,000	-	(24,410,000)	31,695,000	31,695,000
	$ 90,358,322	$ 12,060,855	$ (38,303,248)	$ 64,115,929	$ 34,490,360

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.

14. EMPLOYEE RETIREMENT PENSION PLAN *(Continued)*

Funding Policy: Plan members are required to contribute 8.0% of their annual covered salary, and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The rate is 12.88%, 10.61%, and 10.18% of annual covered payroll for fiscal year 2008, 2007 and 2006, respectively. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Employer contributions to SURS directly appropriated by the state for the years ended June 30 are as follows:

Fiscal Year	Amount
2008	$ 14,700,452
2007	10,733,027
2006	7,152,188
2005	11,004,508

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

Fiscal Year	Amount
2008	$ 915,662
2007	918,262
2006	1,028,782
2005	790,100

15. OTHER POST-EMPLOYMENT BENEFITS

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

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

Membership: As of June 30, 2008 and 2007, membership consisted of:

	2008	2007
Retirees and beneficiaries currently receiving benefits	735	673
Active employees – vested	1,669	1,637
TOTAL	2,404	2,310
Participating Employers	1	1

Funding Policy: The contribution percentages are negotiated between City Colleges and the retirees. Currently, City Colleges contributes approximately 90% of the premium. For the fiscal year ended June 30, 2008, City Colleges contributed $6,498,620.

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

Annual OPEB Costs and Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Increase in Net OPEB Obligation
June 30, 2008	$ 9,958,539	$6,498,620	65.3%	$ 3,459,919
June 30, 2007	12,792,179	7,562,710	59.1%	5,229,469
June 30, 2006	12,851,308	8,421,684	65.5%	4,429,624
		Total Net OPEB Obligation		$ 13,119,012

Annual OPEB Costs and Net OPEB Obligation – City Colleges' annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2008 and 2007 were as follows:

	2008	2007
Annual Required Contribution	$ 10,087,473	$ 12,851,308
Interest on Net OPEB Obligation	482,955	221,481
Adjustment to Annual Required Contribution	(611,889)	(280,610)
Annual OPEB Cost	9,958,539	12,792,179
Contributions Made	(6,498,620)	(7,562,710)
Increase in Net OPEB Obligation	3,459,919	5,229,469
Net OPEB Obligation Beginning of Year	9,659,093	4,429,624
Net OPEB Obligation End of Year	$ 13,119,012	$ 9,659,093

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

The funded status of the plan as of June 30, 2008 and 2007 was as follows:

	2008	2007
Actuarial Value of Assets	$ -	$ -
Actuarial Accrued Liability (AAL)	113,011,808	108,953,481
Unfunded Actuarial Accrued Liability (UAAL)	$113,011,808	$108,953,481
Funded Ratio (actuarial value of assets/AAL)	-%	-%
Covered Payroll (active plan members)	$95,665,186	$92,958,918
UAAL as a Percentage of Covered Payroll		
(AAL less Actuarial Value of Assets / UAAL)	118.1%	117.2%

For the fiscal year ending June 30, 2008, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5% discount rate, and an annual healthcare cost trend rate of 9.0% which gradually declines to a 5.0% by the year 2017. The actuarial value of assets was not determined as City Colleges has not fully advance-funded its obligation. However, City Colleges has $9.6 million in investments designated for this obligation.

16. RISK MANAGEMENT

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

A. General Liability – Self-Insurance

City Colleges self-insures for a portion of general liability exposure and has coverage by an independent insurer for claims exceeding $250,000 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 $15,000,000. 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.

16. RISK MANAGEMENT *(Continued)*

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 $424,400 and $350,300 as of June 30, 2008 and 2007, 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 $3,828,949 and $2,262,833 as of June 30, 2008 and 2007, respectively. This amount is reported with "Other liabilities – Self-Insurance reserves". Management of City Colleges believes that there are no material lawsuits or claims covered by the workers' compensation self-insurance program that have not been adequately covered.

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 $1,388,479 and $1,348,642 as of June 30, 2008 and 2007, respectively that have been incurred, but not claimed.

Summary of Changes in Self-Insurance

	June 30, 2007	Incurred Claims	Payment on Claims	June 30, 2008	Amounts due within one year
General liability	$ 350,300	$ 159,243	$ (85,143)	$ 424,400	$ 340,668
Workers' compensation	2,262,833	2,019,955	(453,839)	3,828,949	534,009
Health insurance	1,348,642	21,568,979	(21,529,142)	1,388,479	1,388,479
	$ 3,961,775	$ 23,748,177	$ (22,068,124)	$ 5,641,828	$ 2,263,156

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

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.

As of June 30, 2008, City Colleges has $93,578,000 in purchase commitments for its capital plan, of which $55 million is being constructed by the State of Illinois and $25 million is being funded by the State of Illinois.

PART II

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

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

We have audited the basic financial statements of the City Colleges of Chicago, Community College District No. 508 ("City Colleges") as of and for the year ended June 30, 2008, and have issued our report thereon dated December 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether City Colleges' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City Colleges in a separate letter dated December 22, 2008.

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

Deloitte & Touche LLP

December 22, 2008

PART III

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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 ("City Colleges"), with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. City Colleges' major federal program is 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 major federal program is the responsibility of City Colleges' management. Our responsibility is to express an opinion on City Colleges' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 City Colleges' compliance with those requirements.

In our opinion, City Colleges complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008. 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 item 2008-1.

INTERNAL CONTROL OVER COMPLIANCE

The management of City Colleges is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City Colleges' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City Colleges' internal control over compliance.

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

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

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

Deloitte & Touche LLP

December 22, 2009

PART IV:
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY COLLEGES OF CHICAGO COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY
FISCAL YEAR ENDED JUNE 30, 2008

Federal Agency	Expenditures
U.S. Department of Agriculture	$ 172,622
U.S. Department of Education	61,226,650
U.S. Department of Health and Human Services	1,269,449
U.S. Department of Homeland Security	23,203
U.S. Department of Labor	541,945
U.S. Department of Transportation	23,221
National Endowment for the Humanities	7,219
National Science Foundation	572,526
TOTAL EXPENDITURES OF FEDERAL AWARDS	$63,836,835

See notes to the 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, 2008

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
U.S. Department of Agriculture —			
Passed through the Illinois State Board of Education			
Child and Adult Care Food Program:			
Child Care Food Grant	10.558	14016508051	154,448
U.S. Department of Agriculture —			
Passed through Illinois State Board of Education			
Nat'l Youth Summer Food Program	10.559	14016508051	18,174
Total Expenditures — U.S. Department of Agriculture			172,622
U.S. Department of Labor —			
Passed through Illinois Community College Board			
Blended On-Line Healthcare	17.258	BL50807	145,093
U.S. Department of Labor —			
Passed through Illinois Department of Commerce and Economic Development			
ETIP/SMCC - Multi-Company Option	17.261	07-865023	110,479
ETIP/SMCC - Multi-Company Option	17.261	07-865024	50,000
			160,479
U.S. Department of Labor —			
Passed through Illinois Community College Board			
Manufacturing Innovations	17.267	05-113004	55,750
U.S. Department of Labor —			
Passed through Occupational Safety and Health Administration			
Susan Harwood Training Grant Program	17.502	46E6-HT27	42,091
Susan Harwood Training Grant Program	17.502	SH-16629-07-60-F-17	138,532
			180,623
Total Expenditures — U.S. Department of Labor			541,945
U.S. Department of Transportation —			
Passed through University of Wisconsin — Madison			
Optimization of Transportation	20.701	A800354	23,221
National Endowment for the Humanities —			
National Great Books Project: Humanities Education for Minority & Non-Traditional Community College Students	45.167	EE-50149-04	7,219

(Continued)

CITY COLLEGES OF CHICAGO COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2008

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
National Science Foundation —			
Exploring New Models for Authentic Undergraduate Research with			
Two-Year College Students	47.049	CHE-0629174	522,430
National Science Foundation —			
Collaboration Research for 2 year Colleges			
Research experiences for undergraduate site	47.049	CHE-0539214	7,281
National Science Foundation —			
Passed through Purdue University			
Undergraduate Research Center			
Center for Authentic Science Practice In Education	47.049	CHE-0418902	8,000
Center for Authentic Science Practice In Education	47.049	CHE-0418902	7,474
			15,474
National Science Foundation —			
Adapting and Implementing Process Oriented Guided Inquiry Learning	47.076	DUE-0536113	21,668
National Science Foundation —			
Passed through DePaul University			
Building a STEM Pipeline in Chicago	47.076	DUE-0653198	3,501
National Science Foundation —			
Passed through Cabrillo Community College			
Bridging Community College Chemistry Faculty into the National			
Educational Community	47.076	0737166	2,172
Total Expenditures — National Science Foundation			572,526
U.S. Department of Education —			
Student Financial Assistance Cluster:			
Federal Pell Grant Program	84.063	P063P061341	46,120,187
Federal Supplemental Educational Opportunity Grants Program	84.007	P007A061123	1,763,186
Federal Work-Study Program	84.033	P033A061123	1,581,848
Federal Academic Competitiveness Grant	84.375	P375A061341	194,667
Total Student Financial Assistance Cluster (Major)			49,659,888
U.S. Department of Education —			
Passed through the Illinois Community College Board:			
Adult Education — State Grants Program:			
Adult Education Grant — Basic	84.002A	50800	3,071,634
Adult Education Grant — Civic	84.002A	50800	540,766
			3,612,400

(Continued)

CITY COLLEGES OF CHICAGO COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2008

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
U.S. Department of Education —			
Higher Education — Institutional Aid Program:			
Strengthening Institutions — Hispanic Serving Institutions	84.031S	P031S020036	387,510
Collaboration to Improve Hispanic Transfer & Degree	84.031S	P031S040011	1,025,513
			1,413,023
TRIO Cluster:			
TRIO — Student Support Services:			
Student Support Services Program	84.042A	P042A050726	218,901
Student Support Services Program	84.042A	P042A050311	221,979
Student Support Services Program	84.042A	P042A051218	255,463
Student Support Services Program	84.042A	P042A050804	168,742
Student Support Services Program	84.042A	P042A051235	272,178
			1,137,263
TRIO — Talent Search Program:			
Talent Search Grant	84.044A	P044A020272	77,731
Talent Search Grant	84.044A	P044A070719	162,820
Talent Search Grant	84.044A	P044A060892	226,240
			466,791
TRIO — Upward Bound Program:			
Upward Bound Grant	84.047A	P047A030703	43,899
Upward Bound Grant	84.047A	P047A030557	223,127
			267,026
TRIO — Educational Opportunity Centers :			
Educational Opportunity Centers Program	84.066A	P066A020178	32,090
Educational Opportunity Centers Program	84.066A	P066A070373	180,778
			212,868
Total TRIO Cluster			2,083,948
Passed through the Illinois Community College Board			
Vocational Education — Basic Grant to States (Perkins III) Programs:			
Perkins III Grant	84.048	CTE50808	3,629,830
Career and Technical Education	84.048	CTEL08508	140,000
Technical Preparation Support	84.048	TPS50808	32,068
			3,801,898

(Continued)

CITY COLLEGES OF CHICAGO COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2008

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
U.S. Department of Education —			
Fund for the Improvement of Postsecondary Education Program:			
Comprehensive Program — Wright	84.116B	P116B030714	632
U.S. Department of Education —			
Passed through Illinois Community College Board Tech-Prep Education Program:			
Federal Technical Prep. Grant	84.243	08TP5080	495,550
U.S. Department of Education —			
Passed through Northeastern University Gear-up Program			
Chicago Gear Up Alliance	84.334	P334A050146	146,459
U.S. Department of Education —			
Passed through Illinois State University			
Teacher Quality Enhancement Grant Partnership	84.336C	P336C050025	12,852
Total Expenditures — U.S. Department of Education			61,226,650
Passed through the City of Chicago Department of Human Services:			
Child Care and Development Block Grant:			
Wrap Around Grant — Child Care Services	93.575	9733-2	212,334
Wrap Around Grant — Child Care Services	93.575	9733-3	221,009
			433,343
U.S. Department of Health and Human Services —			
Passed through Illinois Department of Human Services:			
Child Care Mandatory and Matching Funds of Child Care Program:			
Child Development Center Grant	93.596	10C8001140	10,330
Total CCDF Cluster			443,673
U.S. Department of Health and Human Services —			
Passed through the City of Chicago Department of Human Services:			
Head Start Program:			
Child Development Assoc Training Grant	93.600	10755-2	230,674
Child Development Assoc Training Grant	93.600	10755-3	165,353
Collaboration Full Day Child Care Grant	93.600	9733-2	20,575
Collaboration Full Day Child Care Grant	93.600	9733-3	79,664
			496,266
U.S. Department of Health and Human Services —			
National Institute of Health			
Passed through National Institute of General Medical Sciences			
Passed though Illinois State University			
Central Illinois Bridge Program	93.859	5R25GM073603-03	19,974

(Continued)

CITY COLLEGES OF CHICAGO COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2008

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
U.S. Department of Health and Human Services — National Institute of Health Passed through National Institute of General Medical Sciences Passed though American Psychological Association	93.859	GM008640-05A1	1,350
U.S. Department of Health and Human Services — National Institute of Health Passed through National Institute of General Medical Sciences Passed through American Psychological Association	93.859	5T36GM008640	12,177
U.S. Department of Health and Human Services — Bridges to the Baccalaureate: Center of Science Success	93.859	5 R25 GM068939	9,448
U.S. Department of Health and Human Services — Bridges to the Baccalaureate: Center of Science Success	93.879	5 R25 GM066344	186,906
U.S. Department of Health and Human Services — Grants for Physician Assistant Training Program Physician Assistant Training Grant	93.884	5D57HP05121	99,655
Total Expenditures — U.S. Department of Health and Human Services			1,269,449
U.S. Department of Homeland Security Transportation Security Administration Passed through American Association of Community Colleges Crew Member Self Defense Training Program	97.068	HSTS01-05-G-WPT917	4,255
U.S. Department of Homeland Security Scientific Leadership Awards for Minority Serving Institutions Grant Program Wilbur Wright College Emergency Management Associates in Applied Science Program	97.062	2008-ST-062-000002	18,948
Total Expenditures — U.S. Department of Homeland Security			23,203
Total All Programs			$63,836,835

(Concluded)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

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 seven colleges are Richard J. Daley College, Harold Washington College, Kennedy-King College, Malcolm X College, Olive-Harvey College, Harry S. Truman, and Wilbur Wright College. The Board of Trustees (the "Board"), appointed by the Mayor of Chicago and ratified by the City Council of Chicago, 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").

Fiscal Period Audited — Single Audit testing procedures were performed for program transactions that occurred during the fiscal year ended June 30, 2008.

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.

***Cost Allocation* —** City Colleges has a plan for allocation of common and indirect costs related to grant programs. The amounts allocated to grant programs during the fiscal year ended June 30, 2008, are primarily based on a federally negotiated higher education rate agreement.

Individual campuses' indirect cost rate for the fiscal year ended June 30, 2008, have been approved for charging federal programs by the appropriate federal and state agencies.

3. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City Colleges and is presented on the accrual basis of accounting. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The amounts presented in this schedule have been reconciled to the City Colleges' financial statements.

4. FEDERAL AWARD THRESHOLD

The federal expenditure dollar threshold used to distinguish between Type A and Type B programs for fiscal year 2008 was $1,915,105.

5. FEDERAL STUDENT LOAN PROGRAM

Loans were made under federal student loans programs and federally guaranteed loans issued to eligible students of City Colleges during the fiscal year ended June 30, 2008, and are summarized as follows:

Guaranteed loan programs:	
Unsubsidized Stafford	$ 864,290
Subsidized Stafford	2,593,329
PLUS student loans	150,566
Total federal student loan program	$ 3,608,185

6. OTHER NONCASH ASSISTANCE

Noncash federal awards totaling $157,696 were received as in-kind contributions for the Head Start Collaboration Grant.

7. FINDINGS AND NONCOMPLIANCE

The findings and noncompliance identified in connection with the 2008 Single Audit are disclosed in the Schedule of Findings and Questioned Costs.

8. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, City Colleges did not provide federal awards to subrecipients during the fiscal year ended June 30, 2008.

9. AMOUNT OF FEDERAL INSURANCE IN EFFECT DURING THE YEAR

No federal insurance was received by City Colleges during the year ended June 30, 2008.

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PART V:
CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

SECTION I — SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	**Unqualified**
Internal control over financial reporting:	
• Material weakness(es) identified?	None Reported
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Reported
• Noncompliance material to financial statements noted?	None Reported

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None Reported
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Reported
Type of auditors' report issued on compliance for major programs:	**Unqualified**
• Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes

(Continued)

SECTION I
Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
84.007/84.033/84.063/84.375	Student Financial Assistance Cluster

• Dollar threshold used to distinguish Type A and Type B programs	$1,915,105
• Auditee qualified as a low-risk auditee?	No

(Concluded)

SECTION II —FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Concluded)

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

FINDING 2008—1 **QUESTIONED COSTS: $846**

STUDENT FINANCIAL ASSISTANCE CLUSTER — CFDA 84.007, 84.033, 84.063, 84.375
U.S. DEPARTMENT OF EDUCATION

Condition

In four out of 25 selections tested for Return of Title IV (R2T4) funds, we noted that the percentage of Title IV funds earned was not properly calculated as stated in 34 CFR 668.22. We also noted that the R2T4 funds were not processed by the deadline as stated in 34 CFR 668.22 for one out of our 25 selections.

Cause

Errors in manually entering the percentage of Title IV funds earned into the PeopleSoft Student Administration System. Lack of monitoring to ensure that R2T4 funds are processed in a timely manner.

Criteria

The calculation of the amount of Title IV funds earned by the student is determined by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student's withdrawal date as per 34 CFR Section 668.22(f).

R2T4 funds are required to be deposited to the Student Financial Aid accounts or returned to the appropriate lender within 45 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 are approximately $49 million out of total federal expenditures of $64 million. The error we identified was $846 and the likely error was $84,155.

Effect

Incorrect calculation and return of federal funds could result in penalties and reduction of future revenue.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION (continued)

Recommendation

Ensure the percentage of Title IV funds earned by the student is properly calculated. Develop a program in the Peoplesoft system to automatically calculate the percentage of Title IV earned by a student to avoid potential clerical errors. Review calculations consistently throughout the year.

Ensure R2T4 funds are returned by the 45-day deadline. Develop a report that summarizes the R2T4 payments made to the Department of Education for the award year.

Views of Responsible Officials

Refer to page 70 for management's response and corrective action plan.

CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2008

SECTION IV—CORRECTIVE ACTION PLAN

FINDING 2008-1

Corrective Action Plan

Person Responsible: District Director of Student Financials Completion Date: Fiscal 2009

We concur with this finding. Effective for the 2009 Summer School Term, City Colleges of Chicago will become a non-attendance-taking institution. As a result, all R2T4 calculations will be calculated with a withdrawal date equal to the mid-term date. The calculation will be based on withdrawals at mid-term thus minimizing the risk of clerical errors. We are in the process of working with OIT to develop a report summarizing R2T4 payments to assist with monitoring of compliance with withdrawals requiring return calculations.

PART VI:
CITY COLLEGES OF CHICAGO
COMMUNITY COLLEGE DISTRICT NO. 508
SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008

PRIOR-YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2007—1

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

Condition

In four out of 35 selections tested for Return of Title IV (R2T4) funds, we noted that the R2T4 funds were not processed by the deadline as stated in 3 CFR 668.22. However, as a result of procedures implemented based on the 2006 corrective action plan, we noted that the R2T4 funds for students that withdrew beginning March 2007 were processed by the deadline.

Corrective Action Plan

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

Status

Refer to the current year finding 2008-1.