City Colleges of Chicago, Community College District No. 508

Basic Financial Statements as of and for the Years Ended June 30, 2012 and 2011, Independent Auditors' Reports, 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, 2012

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, 2012 and 2011, as listed in the foregoing table of contents. These basic 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 basic 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 basic financial statements. An audit also includes 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 financial position of City Colleges of Chicago, Community College District No. 508 as of June 30, 2012 and 2011, and the changes in its financial position and its 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 45–46, dated October 31, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on City Colleges' basic financial statements. The accompanying schedule of expenditures of federal awards for the fiscal year ended June 30, 2012, is presented for the purpose of additional analysis as required by OMB Circular A-133, and is not a required part of the 2012 basic financial statements. This schedule is the responsibility of the management of City Colleges and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2012 basic financial statements and certain additional procedures, including comparing and reconciling information directly to the underlying accounting and other records used to prepare the 2012 basic financial statements or to the basic financial statements themselves and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, when considered in relation to the 2012 basic financial statements as a whole.

Deloitte & Touche LLP

October 31, 2012

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 fiscal years ended June 30, 2012 and 2011. 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 that precedes this section and 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 basic financial statements focus on City Colleges as a whole. The accompanying basic 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 describes 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 2012 - Total net assets as of June 30, 2012 increased by $36.8 to $861 million.

Current assets increased by $33.3 million due to an increase in receivables of $4.7 million and a $28.6 million increase in cash and short term investments. Of the $4.7 million increase in receivables, $3.4 million resulted from the State of Illinois' continuing fiscal difficulties and consequent increase in delinquent payments. Property taxes receivable increased by $0.9 million. These increases plus a $45.7 million increase in short-term investments are offset by a $17.1 million decrease in cash as the City Colleges invested available cash to take advantage of short-term interest rates.

Other assets decreased by $8.4 million due to a decrease in long term investments of $4.9 million and a decrease in restricted cash and funds held by the Public Building Commission of $3.5 million.

Capital assets increased by $7.3 million due to a $27.1 million increase in investment in facilities and equipment offset by annual accumulated depreciation of $19.8 million.

Total current liabilities decreased by $6.8 million due in part to a decrease of $5.0 million in accrued payroll and a $6.7 million decrease in deferred salaries and deferred revenues for tuition and grants, which were offset by a $3.4 million increase in accrued property tax refunds and a $1.8 million increase in other accruals and liabilities. Total non-current liabilities increased by $2.2 million due to an increase of $4.1 in other post-employment benefits, offset by a decrease of $1.9 million in accrued compensated absences and sick leave benefits.

Fiscal year 2011 - Total net assets as of June 30, 2011 increased by $30.3 to $824.2 million.

Current assets increased by $20 million driven by a $7.8 million increase in accounts receivable and a $15.3 million net increase in cash and short-term investments. The $76.5 million increase in cash includes $61.3 million in transfers from investment accounts to cash accounts. A $3.1 million decrease in property taxes receivable offsets these increases. The $7.8 million increase in accounts receivable is due to a $3.6 million increase in the State of Illinois receivable, a $2.5 million increase in Government claims, and a $2.4 million increase in grants receivable offset by a $0.7 decrease in student receivables.

Other assets increased by $28.3 million due in part to an increase in long term investments of $28.6 million which was offset by a decrease in restricted cash of $300,000.

Total current liabilities increased by $14.2 million due to an increase of $6.4 million in accounts payable; a $2.4 million increase in deferred salaries, deferred revenues for tuition, property taxes, and grants, and other accruals; and a $7.7 million increase in other liabilities which were offset by a $2.4 million decrease in deposits held for others and accrued property tax refunds. Total non-current liabilities increased by $3.7 million due to an increase of $4.4 in other post-employment benefits.

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

	2012	2011	Change	2010	Change
Current assets	$ 338.0	$ 304.7	$ 33.3	$ 284.7	$ 20.0
Non-current assets					
Capital assets	866.9	839.8	27.1	818.5	21.2
Less accumulated depreciation	(266.6)	(246.7)	(19.9)	(225.3)	(21.4)
Other assets	100.7	109.1	(8.4)	80.8	28.3
Total assets	$ 1,039.0	$ 1,006.9	$ 32.1	$ 958.7	$ 48.2
Current liabilities	$ 129.7	$ 136.5	$ (6.8)	$ 122.3	$ 14.2
Non-current liabilities	48.3	46.2	2.1	42.5	3.7
Total liabilities	$ 178.0	$ 182.7	$ (4.7)	$ 164.8	$ 17.9
Net assets					
Invested in capital assets, net of related debt	$ 600.3	$ 593.0	$ 7.3	$ 593.2	$ (0.2)
Restricted for expendable:					
Capital projects	97.7	93.0	4.7	44.5	48.5
Other	70.2	71.8	(1.6)	69.4	2.4
Unrestricted	92.8	66.4	26.4	86.8	(20.4)
Total net assets	$ 861.0	$ 824.2	$ 36.8	$ 793.9	$ 30.3

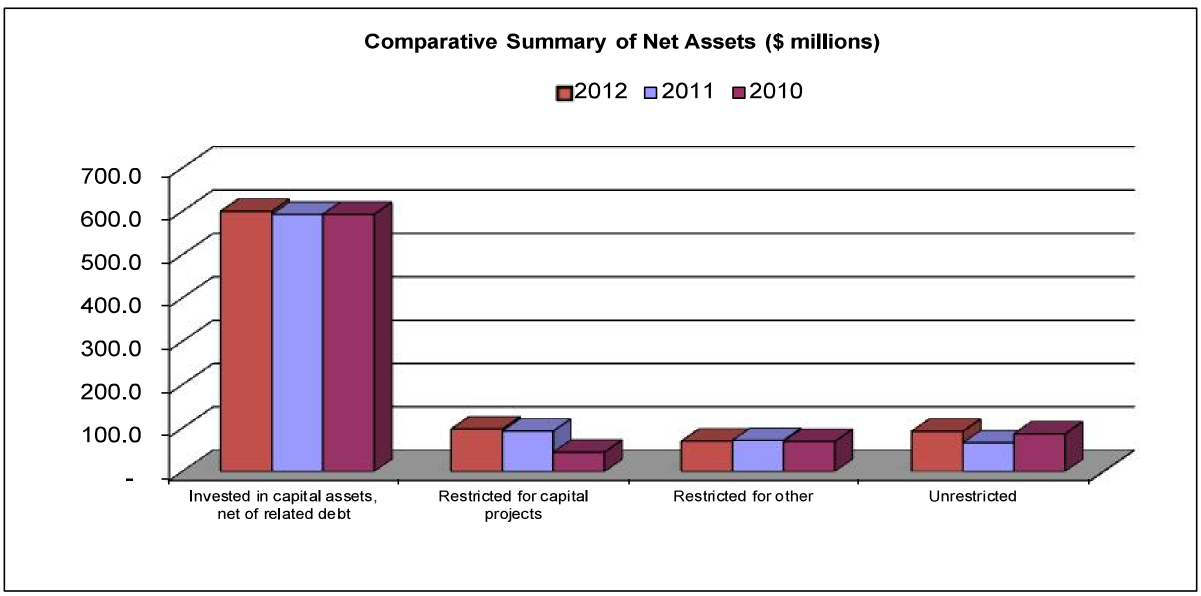

Table 2
Revenues, Expenses and Changes in Net Assets
(in millions of dollars)

Operating	**2012**	**2011**	**Change**	**2010**	**Change**
Revenues	$ 51.8	$ 54.5	$ (2.7)	$ 55.5	$ (1.0)
Expenses	(449.6)	(435.3)	(14.3)	(404.4)	(30.9)
Operating loss	(397.8)	(380.8)	(17.0)	(348.9)	(31.8)
Non-operating					
Revenues	433.2	408.6	24.7	368.5	40.1
Expenses	-	-	-	-	-
Net non-operating revenue	433.2	408.6	24.7	368.5	40.1
Income before capital contributions	35.4	27.7	7.7	19.6	8.1
Capital contributions	1.4	2.6	(1.2)	7.3	(4.7)
Change in net assets	36.8	30.3	6.5	26.9	3.4
Net assets, beginning of year	824.2	793.9	30.3	767.0	26.9
Net assets, end of year	$ 861.0	$ 824.2	$ 36.8	$ 793.9	$ 30.3

Fiscal year 2012 - In fiscal year 2012, income before capital contributions increased by $7.7 million. Although operating revenues decreased by $2.7 million due to an increase in scholarship allowances (deducted from tuition revenue), non-operating revenues increased $24.7 million. Increased state ($12.0 million) and federal ($11.5 million for direct student loans, $4.1 million for Pell Grants, and $0.4 million for other federal grants) support more than offset the decreases in local property tax revenue of $1.7 and personal property replacement taxes of $1.6 million. The overall increase in revenue for FY 2012 was $22.0 million.

In fiscal year 2012, the District received $112 million in Pell Grant disbursements, which provided approximately $56 million in tuition and fee revenue. Changes in Pell Grant eligibility will challenge the City Colleges' ability to maintain this level of revenue in the next several years as the number of students benefitting from Pell Grants is likely to decline. Elimination of the "ability to benefit" criterion and additional limitations on the number of years students can receive Pell Grants are estimated to reduce the number of students receiving such awards in fiscal year 2013 and beyond.

Increases in operating expenses of $15.1 million for financial aid; $18.8 million for salaries and fringe benefit costs; and $3.1 million for equipment not capitalized, supplies and professional development were offset by decreases of $2.4 million for depreciation; $8.8 million for contractual services; and $11.5 million for other expenses, yielding an overall increase of $14.3 million in expenses. See Table 3.

Fiscal year 2011 - In fiscal year 2011, the income before capital contributions increased by $8.1 million. Operating revenues decreased by $1 million while non-operating revenues increased by $40.1 million, producing a net increase of $39.1 million in revenues. Operating expenses increased by $31.0 million due to a $15.8 million increase in financial aid; a $3.5 million increase in fringe benefits; a $4.8 million increase in equipment not capitalized and contractual services; and a $12.9 million increase in depreciation and other expenses. This was offset by a $4.4 million decrease in staffing costs and a $1.7 million decrease in supplies, travel and utility expenses.

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

Operating revenues	**2012**	**2011**	**Change**	**2010**	**Change**
Student tuition and fees	$ 115.5	$ 114.6	$ 0.9	$ 104.8	$ 9.8
Less scholarships	(71.3)	(68.5)	(2.8)	(56.7)	(11.8)
Other operating	7.5	8.4	(0.9)	7.4	1.0
Total operating revenues	51.7	54.5	(2.8)	55.5	(1.0)
Non-operating revenues					
State apportionment and equalization	48.7	48.7	-	38.7	10.0
Other state grants and contracts	87.3	75.4	11.9	72.6	2.8
Local grants and contracts	5.2	5.3	(0.1)	5.6	(0.3)
Local property taxes	121.8	123.5	(1.7)	127.3	(3.8)
Personal property replacement tax	12.3	13.9	(1.6)	11.4	2.5
Federal grants and contracts	156.3	140.2	16.1	110.2	30.0
Litigation settlement	-	-	-	0.7	(0.7)
Investment income	1.6	1.6	-	2.0	(0.4)
Total non-operating revenues	433.2	408.6	24.6	368.5	40.1
Capital appropriations and grants	1.4	2.6	(1.2)	7.3	(4.7)
Total revenues	$ 486.3	$ 465.7	$ 20.6	$ 431.3	$ 34.4

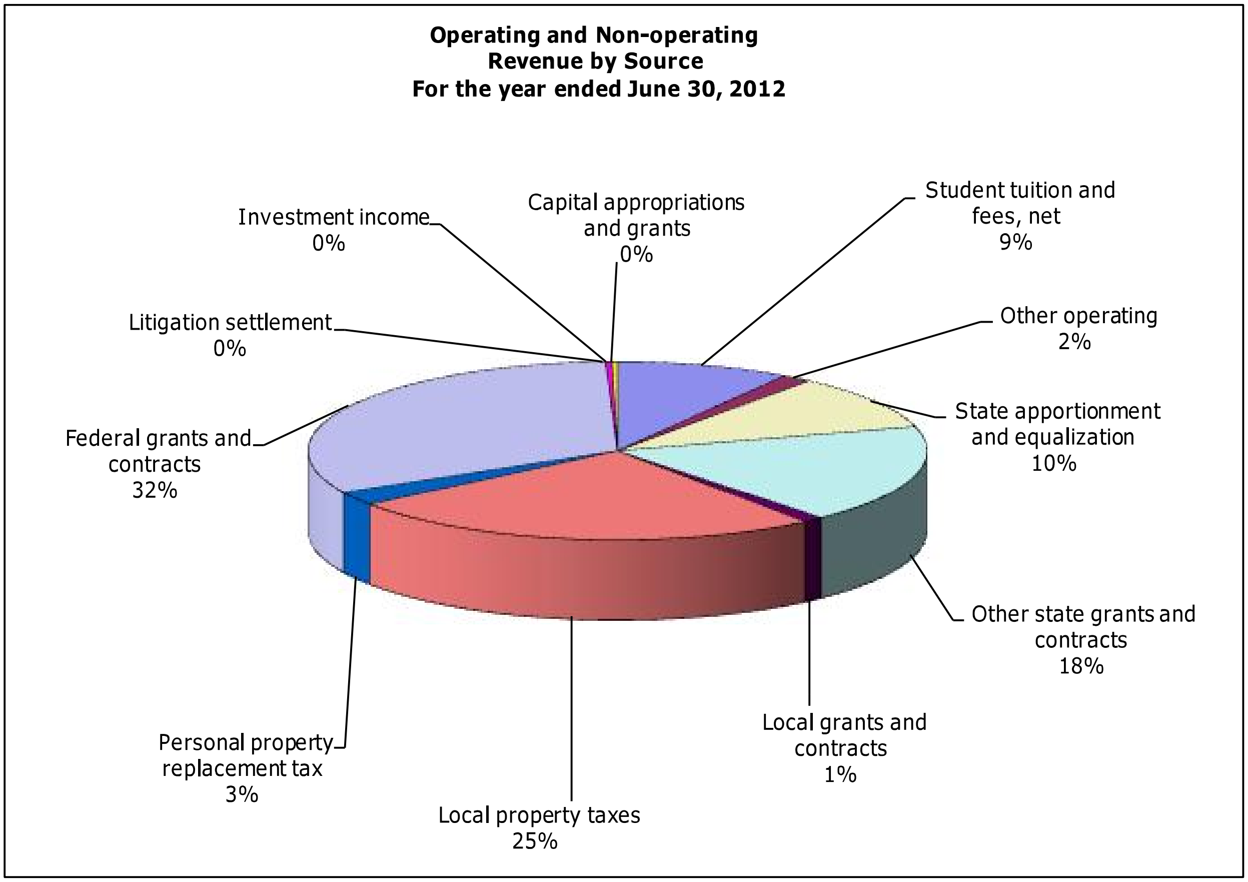
Operating and Non-operating
Revenue by Source
For the year ended June 30, 2012
Investment income
0%
Capital appropriations
and grants
0%
Student tuition and
fees, net
9%
Litigation settlement
0%
Other operating
2%
State apportionment
and equalization
10%
Federal grants and
contracts
32%
Other state grants and
contracts
18%
Local grants and
contracts
1%
Personal property
replacement tax
3%
Local property taxes
25%

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

	2012	2011	Change	2010	Change
Operating expenses					
Instruction	$ 133.8	$ 132.3	$ 1.5	$ 127.8	$ 4.5
Academic support	34.3	31.0	3.3	33.8	(2.8)
Student services	36.9	31.5	5.4	30.3	1.2
Public service	7.7	8.3	(0.6)	10.0	(1.7)
Organized research	0.4	0.6	(0.2)	0.9	(0.3)
Operations and maintenance of plant	51.9	55.5	(3.6)	48.1	7.4
Institutional support	67.9	78.8	(10.9)	76.3	2.5
Financial aid	88.1	73.0	15.1	57.2	15.8
Auxiliary	8.8	2.1	6.7	1.7	0.4
Depreciation	19.8	22.2	(2.4)	18.3	3.9
Total operating expenses	449.6	435.3	14.3	404.4	30.9
Non-operating expenses					
Building lease and debt expense	-	-	-	-	-
Total expenses	$ 449.6	$ 435.3	$ 14.3	$ 404.4	$ 30.9

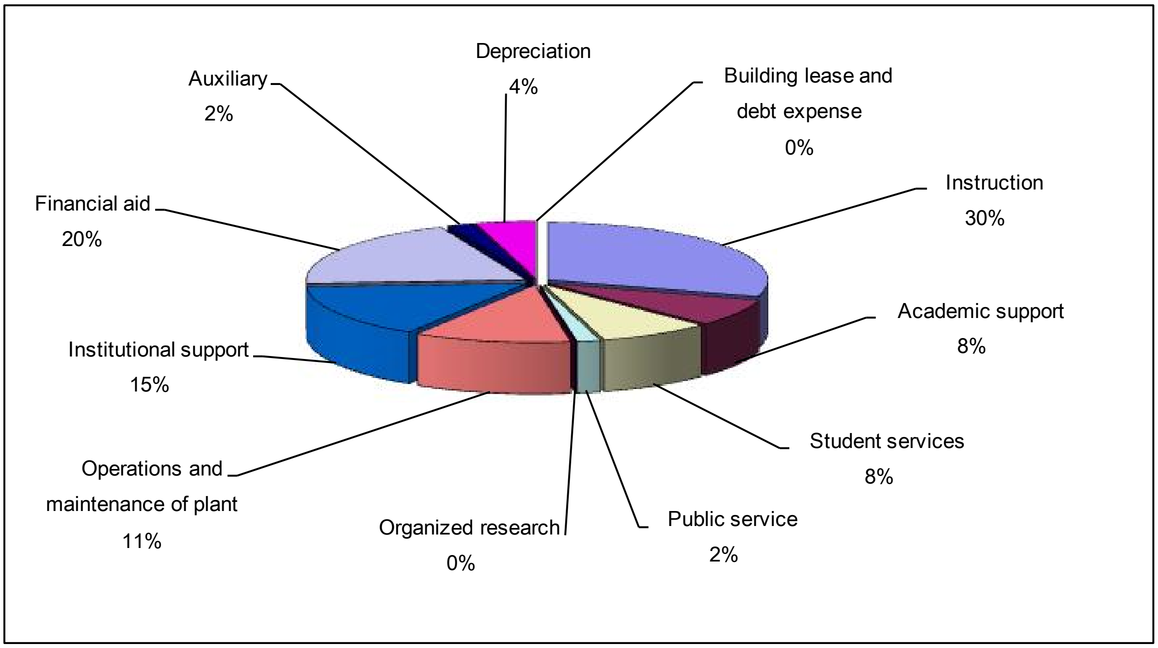

Table 5
Capital Assets (Net of accumulated depreciation)
As of June 30
(in millions of dollars)

	2012	2011	Change	2010	Change
Capital Assets					
Land	$ 50.0	$ 50.0	$ (0.0)	$ 49.1	$ 0.9
Buildings and improvements	711.3	692.7	18.6	680.5	12.2
Construction in progress	58.7	51.8	6.9	43.0	8.8
Equipment	16.9	15.9	1.0	15.7	0.2
Software	30.0	29.4	0.6	29.4	-
Vehicles	-	-	-	0.8	(0.8)
Total	866.9	839.8	27.1	818.5	21.3
Less accumulated depreciation	(266.6)	(246.7)	(19.9)	(225.3)	(21.4)
Net capital assets	$ 600.3	$ 593.1	$ 7.2	$ 593.2	$ (0.1)

Capital Assets

Fiscal year 2012 - As of June 30, 2012, City Colleges had $866.9 million in capital assets, $266.6 million in accumulated depreciation, and $600.3 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 is $7.2 million. **(See Note 5)**

Major capital asset events during fiscal year 2012 included the following:

- A net increase of $18.6 million in buildings and improvements was due to site upgrades at the District Office and at each of the campuses for upgrades to the public announcement system, improved technology to enhance customer focus on learning across districts via upgrades in computers, software, audio visual equipment and technology in various rooms and spaces at Harold Washington, Malcolm X, Olive-Harvey, Daley and Truman. These building improvements were also to replace and upgrade outdated infrastructure and improve wireless connectivity coverage, as well as renovate biology, physics and chemistry labs, and locker rooms.

- Construction in progress costs of $6.9 million was attributable to the renovation of the District Office fire sprinkler and alarm system, electrical services and elevator modernization; Kennedy King's new dental hygiene clinic; Truman's Student Services Center and parking garage; Olive-Harvey's exterior facade and parking lot; and Wright's demolition and renovation of teaching labs.

Capital Assets *(Continued)*

Fiscal year 2011 - As of June 30, 2011, City Colleges had $839.8 million in capital assets, $246.7 million in accumulated depreciation, and $593.1 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 decrease in City Colleges' net capital assets for the current fiscal year is $0.2 million. **(See Note 5)**

Major capital asset events during fiscal year 2011 included the following:

- A net increase of $12.2 million in buildings and improvements was due to site upgrades at the District Office and at each of the campuses parking lots and sidewalks and renovations of various rooms at Harold Washington, Malcolm X, Olive-Harvey and Truman.
- Construction in progress costs of $8.8 million for the renovation of the Olive-Harvey exterior facade and parking lot and the Truman student services center and parking garage.

Non-current Liabilities

Fiscal year 2012 - As of June 30, 2012, City Colleges had total non-current liabilities of $51.0 million before reduction of current maturities. This amount includes $2.7 million for compensated absences, $17.5 million of accumulated sick leave benefit liability for current employees and $30.8 million of other post-employment benefits for retired employees.

Fiscal year 2011 - As of June 30, 2011, City Colleges had total non-current liabilities of $48.7 million before reduction of current maturities. This amount includes $2.7 million for compensated absences, $19.3 million of accumulated sick leave benefit liability for current employees and $26.7 million of other post-employment benefits for retired employees.

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

	2012	2011	Change	2010	Change
Accrued compensated absences	$ 2.7	$ 2.7	$ (0.0)	$ 2.9	$ (0.2)
Sick leave benefits	17.5	19.3	(1.8)	19.5	(0.2)
Other post retirement benefits	30.8	26.7	4.1	22.3	4.4
Sub-total	51.0	48.7	2.3	44.7	4.0
Less current portion	(2.6)	(2.5)	(0.1)	(2.3)	(0.2)
Total non-current liabilities	$ 48.4	$ 46.2	$ 2.2	$ 42.4	$ 3.8

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.

Basic Financial Statements

City Colleges of Chicago
Community College District No. 508
Statements of Net Assets
June 30, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 102,797,818	$ 119,912,936
Short-term investments	137,167,278	91,408,206
Property tax receivable, net	57,546,691	56,673,602
Personal property replacement tax receivable	1,707,271	1,858,390
Other accounts receivable, net	38,605,102	34,759,446
Prepaid items and other assets	189,163	46,868
Total current assets	338,013,323	304,659,448
Non-current assets:		
Restricted cash	824,389	1,778,722
Funds held by Public Building Commission	108,303	2,762,337
Long-term investments	99,753,689	104,664,276
Capital assets	866,923,276	839,764,390
Less: Accumulated depreciation	(266,588,199)	(246,743,974)
Total non-current assets	701,021,458	702,225,751
Total assets	1,039,034,781	1,006,885,199
Liabilities		
Current liabilities:		
Accounts payable	21,635,811	21,185,009
Accrued payroll	2,500,605	7,542,753
Other accruals	1,245,012	973,972
Deferred salaries	1,484,513	3,726,330
Deposits held in custody for others	1,402,552	1,610,311
Deferred tuition and fees revenue	6,411,658	7,471,623
Deferred property tax revenue	59,161,623	59,161,623
Accrued property tax refunds	9,671,585	6,292,190
Deferred grant revenue	1,341,414	4,810,007
Other liabilities	22,206,095	21,196,468
Current portion of non-current liabilities	2,609,757	2,530,122
Total current liabilities	129,670,625	136,500,408
Non-current liabilities:		
Accrued compensated absences	2,656,394	2,735,949
Sick leave benefits	17,504,584	19,270,303
Other post-employment benefits	30,820,071	26,712,237
Less current portion of non-current liabilities	(2,609,757)	(2,530,122)
Total non-current liabilities	48,371,292	46,188,367
Total liabilities	178,041,917	182,688,775
Net assets		
Net assets invested in capital assets	600,335,077	593,020,416
Restricted for expendable:		
Capital projects	97,683,367	92,978,002
Working capital	70,154,208	71,830,566
Unrestricted	92,820,212	66,367,440
Total net assets	$ 860,992,864	$ 824,196,424

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

City Colleges of Chicago
Community College District No. 508
Statements of Revenues, Expenses and Changes in Net Assets
For the fiscal years ended June 30, 2012 and 2011

Revenues	**2012**	**2011**
Operating revenues:		
Student tuition and fees:		
Resident tuition	$ 85,176,314	$ 83,336,784
Nonresident tuition	6,769,948	7,248,471
Fees	23,531,418	24,002,076
Less: Scholarship allowances	(71,260,880)	(68,487,277)
Net student tuition and fees	44,216,800	46,100,054
Other operating revenues	7,530,445	8,370,707
Total operating revenues	51,747,245	54,470,761
Expenses		
Operating expenses:		
Instructional salaries	88,192,744	88,565,180
Non-instructional salaries	101,665,123	93,023,672
Fringe benefits	78,556,221	67,970,166
Supplies	15,409,438	13,885,552
Professional development	1,484,245	1,325,058
Equipment not capitalized	7,169,078	5,765,922
Utilities	9,833,894	9,834,789
Contractual services	37,456,245	46,303,596
Depreciation	19,844,225	22,245,912
Financial aid, exclusive of scholarship allowances	88,128,031	73,006,767
Other expenses	1,873,076	13,379,760
Total operating expenses	449,612,320	435,306,374
Operating loss	(397,865,075)	(380,835,613)
Non-operating revenues (expenses):		
State apportionment and equalization	48,683,543	48,683,543
Other state grants and contracts	87,343,845	75,378,306
Local grants and contracts	5,241,086	5,273,784
Local property taxes	121,811,625	123,516,103
Personal property replacement tax	12,319,744	13,924,035
Federal grants and contracts	156,278,485	140,186,492
Investment income	1,557,008	1,589,648
Non-operating revenues, net	433,235,336	408,551,911
Income before capital appropriations and grants	35,370,261	27,716,298
Capital appropriations and grants	1,426,179	2,561,433
Change in net assets	36,796,440	30,277,731
Net assets, beginning of year	824,196,424	793,918,693
Net assets, end of year	$ 860,992,864	$ 824,196,424

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

City Colleges of Chicago
Community College District No. 508
Statements of Cash Flows
For the fiscal years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Tuition and fees	$ 37,496,697	$ 41,067,316
Payments to suppliers	(104,539,300)	(108,446,739)
Payments to employees	(200,287,592)	(183,360,875)
Payments to students	(88,128,031)	(73,006,767)
Other	7,530,445	8,370,707
Net cash used for operating activities	(347,927,781)	(315,376,358)
Cash flows from noncapital financing activities		
Local property taxes	124,317,931	124,784,160
State appropriations	92,231,147	91,026,421
Personal property replacement tax	12,470,863	14,139,734
Grants and contracts	162,033,008	143,570,606
Net cash provided by noncapital financing activities	391,052,949	373,520,921
Cash flows from capital and related financing activities		
Capital appropriations and grants	1,912,665	2,440,392
Purchases of capital assets	(23,459,489)	(18,637,037)
Net cash used for capital and related financing activities	(21,546,824)	(16,196,645)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	572,673,550	630,406,707
Purchases of investments	(613,522,035)	(597,762,583)
Interest received on investments	1,200,690	1,662,143
Net cash (used for) provided by investing activities	(39,647,795)	34,306,267
Net (decrease) increase in cash	(18,069,451)	76,254,185
Cash and cash equivalents at beginning of year	121,691,658	45,437,473
Cash and cash equivalents at end of year	$ 103,622,207	$ 121,691,658
Cash and cash equivalents	$ 102,797,818	$ 119,912,936
Restricted cash	824,389	1,778,722
	$ 103,622,207	$ 121,691,658
Noncash Transactions		
State payments on behalf of fringe benefits	43,796,241	33,035,428
Increase in fair market value of investments	258,181	191,365

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

City Colleges of Chicago
Community College District No. 508
Statements of Cash Flows *(Continued)*
For the fiscal years ended June 30, 2012 and 2011

	2012	2011
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (397,865,075)	$ (380,835,613)
Depreciation	19,844,225	22,245,912
State payment for retirement obligation	43,796,241	33,035,428
Changes in net assets:		
Receivables, net	(5,303,820)	(5,471,819)
Prepaid items and other assets	(142,295)	(2,844)
Accounts payable	(2,761,395)	2,778,503
Accrued payroll	(5,042,148)	302,618
Other accruals	(216,160)	524,010
Deferred salaries	(2,241,817)	440,525
Deposits held in custody for others	(207,759)	(381,012)
Deferred tuition and fees revenue	(1,059,965)	366,586
Other liabilities	1,009,627	7,650,383
Accrued compensated absences	(79,555)	(168,511)
Sick leave benefits	(1,765,719)	(264,455)
Other post employment benefits	4,107,834	4,403,931
Net cash used for operating activities	$ (347,927,781)	$ (315,376,358)

The State of Illinois provided no in-kind capital assets during the years ended June 30, 2012 and June 30, 2011.

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

Notes to Basic 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 basic 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, and has concluded that there are none.

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 basic 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 1% 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' basic 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 incurred. All significant intra-agency transactions have been eliminated.

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

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

B. Basis of Accounting *(Continued)*

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 demand deposits and short-term investments with original maturities of three months or less from the date of purchase, except for Illinois funds, Illinois Institutional Investor Trust and money market mutual funds, which are treated as investments due to their maturity dates.

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 facilities rentals 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 Uncollectible

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 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 2011 tax year and collected in 2012 are recorded as revenue in fiscal year 2012. The remaining revenue related to the 2011 tax year extension is deferred and will be recorded as revenue in fiscal year 2013. Based upon collection histories, City Colleges recorded property taxes at 97% of the 2011 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

Cash held in trust, 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 considers a capital asset impaired when its service utility has declined significantly and the events or changes in the circumstances are unexpected or outside the normal life cycle.

City Colleges' capitalization policy for movable property includes 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 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
Software	3
Other equipment	3 - 10

L. Deferred Salaries

Deferred salaries include instructor salaries paid out at a date after which that income is actually earned.

M. Deferred Revenues

Deferred revenues include: (1) tax revenues 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.

N. Accrued Property Tax Refunds

Accrued property tax refunds are estimates of property taxes that may be refunded to taxpayers in the future.

O. Other Liabilities

Other liabilities include amounts due in the current fiscal year for health care, dental, vision and workers compensation insurance, unclaimed property and other third party vendors but not paid until the next fiscal year.

P. Non-Current Liabilities

Non-current liabilities include 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.

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

Q. Net Assets

City Colleges' net assets are classified as follows:

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

Restricted Net Assets – Expendable
Restricted expendable net assets include resources that the City Colleges is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. Other restricted net assets are imposed by the Board of Trustees of City Colleges. This authorizes the Chancellor to establish a contingency reserve which requires three months of spending be restricted and reserved in a separate working capital fund to provide liquidity for day-to-day working capital purposes. 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.

R. 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 allowances, (2) sales and services of auxiliary enterprises, (3) salaries and benefits, and (4) materials and supplies.

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

R. Classification of Revenues and Expenses *(Continued)*

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.

S. 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 contra revenue to tuition revenue. Scholarships that are paid to students are recorded as financial aid expense under operating expenses. Tuition and fees revenue is recognized when the educational services are performed.

T. Income Taxes

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

U. Use of Estimates

The preparation of the basic 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.

V. Subsequent Events

Management has evaluated all subsequent events through October 31, 2012, which is the date the basic financial statements were available to be issued.

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 or the Chief Financial Officer 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 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. This policy applies to all restricted and unrestricted funds, including operating funds, special funds, interest and sinking funds and other funds belonging to or in the custody of the Board.

Deposits

Custodial credit risk – with regards to deposits with financial institutions, custodial credit risk is the risk that in the event of bank failure, City Colleges' deposits may not be returned. City Colleges' investment policy requires that investments made in excess of any applicable deposit insurance be secured by a corporate surety bond written by a surety company authorized to do business in the State of Illinois that is rated at least AA by Standard and Poor's or Aa3 by Moody's, or by an undertaking from the depository supported by a pledge of securities having a market value that is at all times equal to or greater than the uninsured amount on deposit.

Investments

In accordance with its investment policy, City Colleges limits its ***risk tolerance*** based on the investment's objective. Volatility of principal is not permitted or limited in order to obtain additional income or to manage the funds available for projects. Volatility of principal is defined as "by selling an individual security that would cause a realization of an accounting loss on the security". City Colleges limits its ***risk tolerance*** by primarily investing in

2. DEPOSITS AND INVESTMENTS (*Continued)*

Investments *(Continued)*

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.

Custodial credit risk – as it relates to investments, custodial credit risk 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 held by an outside party. To limit its exposure, Counterparties are limited to banks or trust companies authorized to do business in the State of Illinois that are member banks of the Federal Reserve System; and only to registered primary reporting dealers who are registered as broker-dealers with the Securities and Exchange Commission. A written agreement shall be executed stipulating the investment's purchase structure and sell obligations of the Board, the bank and the seller.

Concentration of credit risk – At June 30, 2012, City Colleges had one percent of its overall portfolio invested in the Illinois Funds. At June 30, 2011, City Colleges had none of its overall portfolio invested in the Illinois Funds. This is in accordance with City Colleges' investment policy.

Prohibitions – City Colleges' investment policy specifically prohibits the use of or investment in reverse repurchase agreements, inverse floaters, and derivative products such as collateralized mortgage obligations (CMOs), interest-only securities (IOs), principal-only securities (POs) and other securities that could impart leverage to the portfolio or have highly unpredictable cash flows.

The investment portfolio will be diversified to avoid incurring undue concentration in securities of one type or securities of one financial institution or maturities.

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. 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 a 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

2. DEPOSITS AND INVESTMENTS *(Continued)*

Investments *(Continued)*

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, 2012, which approximates fair value, is $236,920,967. The amount at June 30, 2011 was $196,072,482.

City Colleges' investments are shown in the following tables:

Investment Type	S&P Rating	June 30, 2012 Fair Value	Investment Maturities (in years) Less Than 1	Greater Than 1
US Treasury Obligations	AAA	$ 33,045,120	$ 14,566,182	$ 18,478,938
Federal National Mortgage Assoc.	AAA	108,938,394	27,663,643	81,274,751
IL Institutional Investor Trust	AAA	25,653,583	25,653,583	-
Illinois Funds (Money Market)	AAAm	4,111,130	4,111,130	-
Commercial Paper	A-1+	61,075,666	61,075,666	-
Corporate Note	AA+	3,959,654	3,959,654	-
Money Market Fund	AAAm	137,420	137,420	-
Total investments		$ 236,920,967	$ 137,167,278	$ 99,753,689

Investment Type	S&P Rating	June 30, 2011 Fair Value	Investment Maturities (in years) Less Than 1	Greater Than 1
US Treasury Obligations	AAA	$ 44,769,553	$ 28,840,218	$ 15,929,335
Federal National Mortgage Assoc.	AAA	72,939,010	27,373,961	45,565,049
IL Institutional Investor Trust	AAA	28,856,344	28,856,344	-
Commercial Paper	A-1+	49,507,575	49,507,575	-
Total investments		$ 196,072,482	$ 134,578,098	$ 61,494,384

Per Statement of Net Assets:

	June 30, 2012	June 30, 2011
Investments:		
Short-term investments	$ 137,167,278	$ 91,408,206
Long-term investments	99,753,689	104,664,276
Total Investments	$ 236,920,967	$ 196,072,482

3. OTHER ACCOUNTS RECEIVABLE

City Colleges' other accounts receivable consists of the following:

	June 30	
	2012	2011
Student	$ 13,108,395	$ 11,338,226
Grants	9,133,225	10,947,707
State of Illinois	15,894,677	12,461,551
Other	3,830,768	3,261,947
Gross other accounts receivable	41,967,065	38,009,431
Less: Allowance for uncollectibles	(3,361,963)	(3,249,985)
Other accounts receivable, net	$ 38,605,102	$ 34,759,446

4. RESTRICTED ASSETS

City Colleges' restricted assets consist of the following:

	June 30	
	2012	2011
(A) Cash	$ 824,389	$ 1,778,722
(B) Funds held by PBCC	108,303	2,762,337
Total restricted assets	$ 932,692	$ 4,541,059

Restricted for:

(A) Funds held in trust
(B) Capital construction

5. CAPITAL ASSETS

In fiscal year 2012, $18.6 million in buildings and improvements were completed and the costs were transferred into capital assets being depreciated from construction work in progress. In fiscal year 2011, $12.2 million in buildings and improvements were completed. See the following table.

5. CAPITAL ASSETS *(Continued)*

	July 1, 2011	Additions and Transfers In	Retirements and Transfers Out	June 30, 2012
Capital assets not being depreciated:				
Land	$ 49,959,334	$ -	$ -	$ 49,959,334
Construction work in progress	51,832,430	27,295,849	(20,450,285)	58,677,994
Subtotal	101,791,764	27,295,849	(20,450,285)	108,637,328
Capital assets being depreciated:				
Equipment	15,901,476	1,029,054	-	16,930,530
Software	29,342,571	692,440	-	30,035,011
Buildings and improvements	692,728,579	18,591,828	-	711,320,407
Subtotal	737,972,626	20,313,322	-	758,285,948
Total capital assets	839,764,390	47,609,171	(20,450,285)	866,923,276
Accumulated depreciation:				
Equipment	11,016,067	1,174,817	-	12,190,884
Software	28,988,810	161,237	-	29,150,047
Buildings and improvements	206,739,097	18,508,171	-	225,247,268
Total accumulated depreciation	246,743,974	19,844,225	-	266,588,199
Capital assets, net	$ 593,020,416	$ 27,764,946	$ (20,450,285)	$ 600,335,077
Cost of buildings and improvements acquired under capital leases (included in total capital assets above)	$ 391,825,192	$ -	$ -	$ 391,825,192

	July 1, 2010	Additions and Transfers In	Retirements and Transfers Out	June 30, 2011
Capital assets not being depreciated:				
Land	$ 49,094,047	$ 865,287	$ -	$ 49,959,334
Construction work in progress	43,035,306	31,530,393	(22,733,269)	51,832,430
Subtotal	92,129,353	32,395,680	(22,733,269)	101,791,764
Capital assets being depreciated:				
Vehicles	825,036	-	(825,036)	-
Equipment	15,722,974	278,303	(99,801)	15,901,476
Software	29,342,571	-	-	29,342,571
Buildings and improvements	680,481,594	12,246,985	-	692,728,579
Subtotal	726,372,175	12,525,288	(924,837)	737,972,626
Total capital assets	818,501,528	44,920,968	(23,658,106)	839,764,390
Accumulated depreciation:				
Vehicles	510,598	-	(510,598)	-
Equipment	9,810,547	1,523,423	(317,903)	11,016,067
Software	28,826,737	162,073	-	28,988,810
Buildings and improvements	186,178,681	20,560,416	-	206,739,097
Total accumulated depreciation	225,326,563	22,245,912	(828,501)	246,743,974
Capital assets, net	$ 593,174,965	$ 22,675,056	$ (22,829,605)	$ 593,020,416

6. NET ASSETS

Net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources may be used at the discretion of the governing board to meet current expenses for any purpose. The Board of Trustees of City Colleges has designated certain unrestricted net assets for capital projects. In fiscal year 2012, $12.3 million was designated from personal property replacement taxes. In fiscal year 2011, $13.9 million was designated from current personal property taxes.

7. LEASES

Operating Leases

City Colleges leases equipment and office space under various operating lease agreements that will expire at various dates in the future. Certain leases for office space contain renewal provisions.

Operating lease expense was $1,884,288 for the year ended June 30, 2012 compared to $2,296,499 for the year ended June 30, 2011.

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, 2012
2013	$ 623,069
2014	641,761
2015	161,979
	$ 1,426,809

	June 30, 2011
2012	$ 604,922
2013	623,069
2014	641,761
2015	161,979
	$ 2,031,731

8. OTHER ACCRUALS AND OTHER LIABILITIES

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

	2012	2011
Other accruals		
Accrued for services	$ 1,245,012	$ 973,972
Total other accruals	$ 1,245,012	$ 973,972
Other liabilities		
Self insurance	$ 5,820,178	$ 5,154,274
Unclaimed property	3,779,261	3,611,391
Federal Government	10,546,300	10,787,316
Other	2,060,356	1,643,487
Total other liabilities	$ 22,206,095	$ 21,196,468

Referring to the amounts shown under "Federal Government" in the above table, the U. S. Department of Education conducted an audit of compliance with Title IV federal financial aid regulations at Kennedy-King College in fiscal year 2011. The final report of the investigation is pending, but City Colleges has been notified of the Department of Education's estimated liability. City Colleges has appealed the initial findings. While the appeal is pending, the full estimated amount has been recorded as a liability.

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 district's estimated requirements for such purposes. Recent EAV's for tax levies are as follows:

December	Cook County	DuPage County
2011	$75,082,805,968	$4,998,771
2010	82,046,916,439	5,306,256
2009	84,545,026,609	5,478,653
2008	80,923,884,233	5,696,291
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	53,137,728,356	6,732,347

9. PROPERTY TAXES (*Continued)*

Accrued property tax refunds represent City Colleges' estimate of taxes which may be refunded in the future. Accrued property tax refunds in 2012 are $9,671,585 and $6,292,190 in 2011.

10. ACCRUED COMPENSATED ABSENCES

At June 30, 2012, City Colleges had recorded a liability of $2,656,394 for compensated absences, and estimated that $186,744 of these liabilities is current and due within one year. At June 30, 2011, the liability was $2,735,949 for which City Colleges estimated that $191,571 of these liabilities were current and due within one year. **(See Note 12)**

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. The method of calculating the estimated present value of an eligible employee's termination benefit liability uses the following assumptions: (1) estimated average annual salary increments of 4.0%, (2) future payments discounted by a 4.5% interest factor in 2011, and (3) estimated rates of retention as adopted from the *Actuary's Pension Handbook* adjusted for mortality in accordance with published mortality tables.

During fiscal year 2012, the Board amended the unused and accrued sick time policy. Effective July 1, 2012, upon retirement, administrative employees hired before January 1, 2012, are eligible to receive payment for his or her accumulated sick days pursuant to the Board's early retirement program but that payment shall be limited to either the amount of sick leave accumulated through July 1, 2012, or the amount of sick leave the employee has at the time of retirement, whichever is less. Employees hired after January 1, 2012, may accrue a maximum of 200 days but will not be eligible for payment of any unused accrued sick time. Any sick days remaining in their bank may be used for service credit in accordance with the rules of the SURS. Union represented employees hired before June 7, 2012, may accrue unlimited sick leave, but the payout is capped at the amount accrued as of July 1, 2014. For those hired after June 7, 2012, they can accrue up to 200 sick days, but no payments will be made upon retirement.

11. SICK LEAVE BENEFITS *(Continued)*

At June 30, 2012, City Colleges accrued $11,854,056 for the estimated present value of these future retiree benefits for current employees and $5,650,528 in benefits payable to retired employees for a total of $17,504,584.

At June 30, 2011, City Colleges accrued $15,873,355 for the estimated present value of these future retiree benefits for current employees and $3,396,948 in benefits payable to retired employees for a total of $19,270,303. **(See Note 12)**

12. CHANGES IN NON-CURRENT LIABILITIES

Changes in non-current liabilities for the years ended June 30, 2012 and 2011 are summarized in the table below:

	July 1, 2011	Additions	Reductions/ Adjustments	June 30, 2012	Amounts due within one year
Accrued compensated absences	$ 2,735,949	$ 3,053,719	$ (3,133,274)	$ 2,656,394	$ 186,744
Sick leave benefits	19,270,303	6,868	(1,772,587)	17,504,584	2,423,013
Other post-retirement benefits	26,712,237	11,593,396	(7,485,562)	30,820,071	-
	$ 48,718,489	$ 14,653,983	$ (12,391,423)	$ 50,981,049	$ 2,609,757

	July 1, 2010	Additions	Reductions/ Adjustments	June 30, 2011	Amounts due within one year
Accrued compensated absences	$ 2,904,460	$ 3,115,000	$ (3,283,511)	$ 2,735,949	$ 191,571
Sick leave benefits	19,534,758	1,471,857	(1,736,312)	19,270,303	2,338,551
Other post-retirement benefits	22,308,306	11,029,375	(6,625,444)	26,712,237	-
	$ 44,747,524	$ 15,616,232	$ (11,645,267)	$ 48,718,489	$ 2,530,122

13. EMPLOYEE RETIREMENT PENSION PLAN

Plan Description: City Colleges contributes to the 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

13. EMPLOYEE RETIREMENT PENSION PLAN *(Continued)*

established July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, certain other state educational and scientific agencies, and for survivors, dependents, and other beneficiaries of such employees. SURS is included in the State's financial reports as a pension trust fund. SURS is governed by section 5/15, Chapter 40, of the Illinois Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

Funding Policy: Plan members are required to contribute 8.0% of their annual covered salary, and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The rate is 24.21% 21.27% and 18.61% of annual covered payroll for fiscal year 2012, 2011 and 2010, 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
2012	$ 43,796,241
2011	33,035,428
2010	30,288,298

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 100% of the annual required contributions as shown for the years ended June 30:

Fiscal Year	Amount
2012	$ 4,035
2011	25,165
2010	69,266

14. OTHER POST-EMPLOYMENT BENEFITS

Plan Description: In addition to providing the pension benefits described in Note 13, 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. An irrevocable trust has not been established to account for the plan, so the plan is not accounted for as a trust fund and does not issue a separate report.

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, 2012, 2011 and 2010, membership consisted of:

	2012	2011	2010
Retirees and beneficiaries currently receiving benefits	668	654	614
Active employees – vested	1,726	1,594	1,668
TOTAL	2,394	2,248	2,282
Participating Employers	1	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 years ended June 30, 2012 and 2011, City Colleges contributed $7,485,562 and $6,625,444, respectively.

14. 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, 2012	$ 11,593,396	$ 7,485,562	64.6%	$ 4,107,834
June 30, 2011	11,029,375	6,625,444	60.1%	4,403,931
June 30, 2010	11,294,194	6,290,403	55.7%	5,003,791
June 30, 2009	10,361,000	6,175,497	59.6%	4,185,503
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		$ 30,820,071

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 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Annual Required Contribution	$ 11,992,485	$ 11,362,668	$ 11,552,729
Interest on Net OPEB Obligation	1,202,051	1,003,874	778,703
Adjustment to Annual Required Contribution	(1,601,140)	(1,337,167)	(1,037,238)
Annual OPEB Cost	11,593,396	11,029,375	11,294,194
Contributions Made	(7,485,562)	(6,625,444)	(6,290,403)
Increase in Net OPEB Obligation	4,107,834	4,403,931	5,003,791
Net OPEB Obligation Beginning of Year	26,712,237	22,308,306	17,304,515
Net OPEB Obligation End of Year	$ 30,820,071	$ 26,712,237	$ 22,308,306

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

The funded status of the plan as of June 30, 2012, 2011 and 2010 was as follows:

	2012	2011	2010
Actuarial Value of Assets	$ -	$ -	$ -
Actuarial Accrued Liability (AAL)	119,275,116,	124,498,937	117,079,887
Unfunded Actuarial Accrued Liability (UAAL)	$119,275,116	$124,498,937	$117,079,887
Funded Ratio (actuarial value of assets/AAL)	-%	-%	-%
Covered Payroll (active plan members)	$110,092,137	$ 99,595,638	$102,896,841
UAAL as a Percentage of Covered Payroll (AAL less Actuarial Value of Assets / UAAL)	108.3%	125.0%	113.8%

For the fiscal years ending June 30, 2012 and 2011, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions for both fiscal years 2011 and 2012 included an annual healthcare cost trend rate of 9.0% , which gradually declines to 5.0% by the year 2020. The assumptions for both fiscal years include an inflation rate of 3.0% per year and an investment return rate of 4.5% per year. Using an open amortization period, the annual required contribution is calculated to include the normal cost plus a 30-year amortization of the unfunded actuarial liability using a level-dollar amount. The actuarial value of assets was not determined as City Colleges has not fully advance-funded its obligation. However, City Colleges has $27.9 million in investments designated for this obligation in 2012, and had $18.3 million designated in 2011.

15. 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. These matters are managed by the Office of Risk Management and administered by the District's insurance broker and the insurance carrier.

A. General Liability – Self-Insurance

General Liability includes claims of property and non-property matters. Property insurance is designed to provide coverage for the District's real estate assets, boiler and machinery and contents as well as its vehicles. City Colleges maintains excess commercial insurance with policy limits equal to $500,000,000 with various sub-limits dependent upon the nature of the loss. The retention stands at $10,000 with $2,500 for damage to passenger vehicles and $5,000 for trucks.

15. RISK MANAGEMENT *(Continued)*

The District procures an Educators Legal Liability Policy (ELL) to cover a broad range of non-bodily injury or non-property damage liability claims made against the District, administrators, employees and staff. Claims associated with ELL matters are managed by the Office of the General Counsel with cooperation of the Office of Risk Management. Policy limits of $5,000,000 in the aggregate and $5,000,000 per occurrence apply, with retention of $200,000.

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 funds for estimated future claims of $944,000 and $764,100 as of June 30, 2012 and 2011, 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 retains a portion of workers' compensation risk and maintains an excess commercial policy for individual claims exceeding $500,000 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 $3,629,864 and $3,510,705 as of June 30, 2012 and 2011, 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.

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 $1,246,313 and $879,469, as of June 30, 2012 and 2011, respectively that have been incurred, but not claimed.

15. RISK MANAGEMENT *(Continued)*

Summary of Changes in Self-Insurance

	June 30, 2011	Incurred Claims	Payment on Claims	June 30, 2012	Amounts due within one year
General liability	$ 764,100	$ 288,436	$ (108,536)	$ 944,000	$ 944,000
Workers' compensation	3,510,705	1,137,804	(1,018,645)	3,629,864	3,629,864
Health insurance	879,469	25,003,607	(24,636,762)	1,246,314	1,246,314
	$ 5,154,274	$ 26,429,847	$ (25,763,943)	$ 5,820,178	$ 5,820,178

	June 30, 2010	Incurred Claims	Payment on Claims	June 30, 2011	Amounts due within one year
General liability	$ 2,396,000	$ (1,482,500)	$ (149,400)	$ 764,100	$ 764,100
Workers' compensation	3,941,205	168,834	(599,334)	3,510,705	3,510,705
Health insurance	1,179,834	22,779,740	(23,080,105)	879,469	879,469
	$ 7,517,039	$ 21,466,074	$ (23,828,839)	$ 5,154,274	$ 5,154,274

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

16. 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, 2012, City Colleges had $22.2 million in purchase commitments for its capital plan, all of which are being funded by City Colleges.

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
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, 2012, and have issued our report thereon dated October 31, 2012. 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

Management of the City Colleges is responsible for establishing and maintaining effective 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 basic 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 *deficiency in internal control* 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City Colleges' basic financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (2012-1, 2012-2, and 2012-3). A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 October 31, 2012.

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

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

October 31, 2012

PART III

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited City Colleges of Chicago, Community College District No. 508 ("City Colleges") compliance with the types of compliance requirements described in the Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of City Colleges' major federal programs for the year ended June 30, 2012. City Colleges' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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 of City Colleges' compliance with those requirements.

In our opinion, City Colleges complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-4.

Internal Control over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

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

January 30, 2013

PART IV:
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY COLLEGES OF CHICAGO, COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
U.S. Department of Education —			
Student Financial Assistance Cluster (Major Program):			
Federal Supplemental Educational Opportunity Grants Program	84.007	P007A101123	$ 1,331,202
Federal Work-Study Program	84.033	P033A101123	2,237,541
Federal Pell Grant Program	84.063	P063P101341	115,593,224
Federal Direct Loan (Major Program):			
Kennedy King College	84.268	P268K116807	6,639,935
Harold Washington College	84.268	P268K116870	3,672,012
Olive Harvey College	84.268	P268K116999	4,896,270
Truman College	84.268	P268K116996	3,953,471
Malcolm X College	84.268	P268K116907	1,476,591
Daley College	84.268	P268K116878	776,855
Wright College	84.268	P268K116997	901,276
			22,316,410
Total Student Financial Assistance Cluster (Major Program)			141,478,377
TRIO Cluster:			
TRIO — Student Support Services:			
Student Support Services Program	84.042A	P042A100449	39,641
Student Support Services Program	84.042A	P042A100449-11	188,665
Student Support Services Program	84.042A	P042A100110	10,834
Student Support Services Program	84.042A	P042A100110	180,417
			419,557
TRIO — Talent Search Program:			
Talent Search Grant	84.044A	P044A070719-10	51,899
Talent Search Grant	84.044A	P044A110877	158,818
Talent Search Grant	84.044A	P044A060892-10	139,265
Talent Search Grant	84.044A	P044A110382	248,693
			598,675
TRIO — Upward Bound Program:			
Upward Bound Grant	84.047A	PO47A080685-10	54,181
Upward Bound Grant	84.047A	PO47A080685-11	192,314
			246,495
TRIO — Educational Opportunity Centers:			
Educational Opportunity Centers Program	84.066A	P066A070373	52,653
Educational Opportunity Centers Program	84.066A	P066A110111	184,006
			236,659
Total TRIO Cluster			1,501,386

(Continued)

CITY COLLEGES OF CHICAGO, COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
U.S. Department of Education —			
Passed through the Illinois Community College Board			
Adult Education — State Grants Program (Major Program):			
Adult Education Grant — Basic	84.002A	50800	$ 2,595,478
Adult Education Grant — Civic	84.002A	50800	438,509
			3,033,987
U.S. Department of Education:			
Strengthening Institutions	84.031A	P031A090185-10	35,436
Higher Education — Institutional Aid	84.031A	P031A090185-11	160,689
			196,125
U.S. Department of Education —			
Predominantly Black Institutions	84.031P	P031P100013	303,933
U.S. Department of Education —			
Predominantly Black Institutions	84.031P	P031P100017	157,282
U.S. Department of Education —			
Predominantly Black Institutions	84.031P	P031P100011	105,943
U.S. Department of Education —			
Predominantly Black Institutions	84.031P	P031P110013	158,221
U.S. Department of Education —			
Predominantly Black Institutions	84.031P	P031P110014	122,947
U.S. Department of Education —			
Predominantly Black Institutions	84.031P	P031P110015	373
U.S. Department of Education —			
Passed through the Illinois Community College Board			
Vocational Education — Basic Grant to States (Perkins III) Programs (Major Program):			
Perkins IV Grant	84.048	CTE50811	3,527,503
Career and Technical Education Program/Innovation grant	84.048	CTEL11508	22,535
			3,550,038
U.S. Department of Education —			
Passed through the Illinois Community College Board			
Humboldt Park Vocational Education Center			
CIMA Technology Center Grant	84.048	CTEL CIMA508	75,000
U.S. Department of Education —			
Passed through the Illinois Community College Board			
Accelerating Opportunity Supplemental	84.243	CTE 12 AO508	4,700

(Continued)

CITY COLLEGES OF CHICAGO, COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
U.S. Department of Education —			
Passed through Northeastern University:			
Gear-up Program	84.334	P334A050146	$ 12,799
Chicago GEAR UP Alliance	84.334	P334A050146	63,762
			76,561
U.S. Department of Education —			
Project GEMS	84.382A	P382A110034	350,296
U.S. Department of Education —			
Strengthening Minority Serving Institutions			
Learning Communities in Health Education	84.382A	P382A110046	205,477
Total expenditures — U.S. Department of Education			151,320,646
U.S. Department of Health and Human Services —			
Passed through the City of Chicago Department of Family and Support Services:			
Child Care and Development Block Grant:			
Wrap Around Grant — Child Care Services	93.575	18112-6	311,137
Wrap Around Grant — Child Care Services	93.575	25062-1	304,968
			616,105
Passed through the City of Chicago Department of Family and Support Services:			
Head Start Program:			
Child Development Associate Training Grant	93.600	18398-3	235,541
Child Development Associate Training Grant	93.600	26005-1	220,240
Collaboration Full Day Child Care Grant	93.600	18112-6	256,997
Collaboration Full Day Child Care Grant	93.600	25062-1	160,520
			873,298
U.S. Department of Health and Human Services —			
Bridges to the Baccalaureate: Center of Science Success	93.879	5 R25 GM066344	9,331
Total expenditures — U.S. Department of Health and Human Services			1,498,734
U.S. Department of Agriculture —			
Passed through the Illinois State Board of Education:			
Child and Adult Care Food Program	10.558	14016508051	18,014
Child Care Food Grant	10.558	14016508051	119,899
			137,913
U.S. Department of Agriculture —			
Passed through Illinois State Board of Education			
National Youth Summer Food Program	10.559	15016508051	7,203
Total expenditures — U.S. Department of Agriculture			145,116

(Continued)

CITY COLLEGES OF CHICAGO, COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
U.S. Department of Labor —			
Passed through the Department of Commerce and Economic Opportunity			
Passed through the Department of Family and Support Services:			
Nursing Support Program	17.258	AA-20192-10-55-A-17	$ 49,876
			49,876
U.S. Department of Labor —			
Passed through Employment and Training Administration			
Community-Based Job Training Grant	17.269	CB-18221-09-60-A-17	714,554
U.S. Department of Labor —			
Passed through National Council of La Raza			
Health Care Sector and Other High Growth and Emerging Industries	17.275	5509	255,143
U.S. Department of Labor —			
Passed through Jobs For The Future			
Green Jobs Innovation Fund	17.279	IF-21926-11-60-A-25	20,324
U.S. Department of Labor —			
Passed through Cincinnati State Technical and Community College			
Health Professionals Pathways Consortium (H2P)	17.282	TC-22486-11-60-A-39	25,609
Total expenditures — U.S. Department of Labor			1,065,506
National Science Foundation:			
Exploring New Models for Authentic Undergraduate Research	47.049	CHE-0629174	322,006
National Science Foundation —			
Biotechnology Program and Research: The Road to Career Development in Two-Year Colleges	47.076	DUE-0903067	46,733
National Science Foundation —			
Passed through DePaul University:			
Building a STEM Pipeline in Chicago	47.076	DUE-0653198	14,232
Building a STEM Pipeline in Chicago	47.076	DUE-0653198	6,488
Building a STEM Pipeline in Chicago	47.076	DUE-0653198	24,138
Building a STEM Pipeline in Chicago	47.076	DUE-0653198	1,450
			46,308
National Science Foundation —			
Passed through Chicago State University:			
Illinois Louis Stokes Alliance for Minority Participation	47.076	HRD-0904024	1,570
Illinois Louis Stokes Alliance for Minority Participation	47.076	HRD-0413000	5,000
Illinois Louis Stokes Alliance for Minority Participation	47.076	HRD-0904024	657
Illinois Louis Stokes Alliance for Minority Participation	47.076	HRD-0413000	2,334
			9,561

(Continued)

CITY COLLEGES OF CHICAGO, COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
National Science Foundation —			
Passed through Roosevelt University:			
RU-HWC Partnership for STEM Education	47.076	DUE-0757053	$ 7,106
National Science Foundation —			
Passed through Chicago State University:			
Illinois Louis Stokes Alliance for Minority Participation	47.076	DUE-0856827	39,742
Illinois Louis Stokes Alliance for Minority Participation	47.076	DUE-0856827	1,969
Illinois Louis Stokes Alliance for Minority Participation	47.076	DUE-0856827	4,936
Illinois Louis Stokes Alliance for Minority Participation	47.076	DUE-0856827	6,433
			53,080
National Science Foundation —			
Passed through Loyola University			
Introduction to Mass Spectrometry to the Chemistry Curriculum of the Chicago-area Community Colleges	47.076	DUE-0837344	23,253
National Science Foundation —			
Passed through National Center for Science and Civic Engagement			
Science Education for New Civic Engagement and Responsibilities	47.076	717407	3,857
National Science Foundation —			
Passed through National Center for Science and Civic Engagement			
Post Institute Implementation Award	47.076	717407	1,967
National Science Foundation —			
Passed through Northwestern University			
Enhance Critical Thinking in STEM Disciplines	47.076	DUE-0942404	14,187
National Science Foundation —			
Passed through University of Massachusetts Boston			
Broadening Advanced Technological Education Connections	47.076	DUE-1104145	124
Total expenditures — National Science Foundation			528,182
U.S. Department of Housing and Urban Development —			
Passed through Chicago Housing Authority:			
Passed through Chicago Department of Family Support Services			
CHA Learn and Earn Program	14.218	24761	37,869

(Continued)

CITY COLLEGES OF CHICAGO, COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Source of Funds Program Name	CFDA Number	Grant Number	Expenditures
U.S. Department of Commerce			
National Institute of Standards and Technology			
Passed through The Chicago Community Trust			
Broadband Technology Opportunities Program and Public Computers Centers — ARRA Funded (Major Program)	11.557	17-42-B10553	$ 1,118,249
U.S. Department of Transportation/Federal Highway Administration			
Passed through the Illinois Community College Board			
Highway Construction Careers Training Program — ARRA Funded	20.205	HCCTP508	177,375
National Science Foundation —			
IRES US-Kenya: Effects of habitat changes on distribution, abundance, and resource exploitation by globally threatened and forest specialist birds in Arabuku-Sokoke Forest, Kenya — ARRA Funded	47.082	OISE-0927254	2,083
U.S. Department of Energy —			
Weatherization Assistance Program Training Centers and Programs — ARRA Funded	81.042	DE-EE0003859	243,191
U.S. Department of Education			
Office of Special Education and Rehabilitative Services			
Passed through Illinois Department of Human Services — ARRA Funded			
Rehabilitation Services — Vocational Rehabilitation Grants to States	84.390	ARRA VR	4,610
National Institute of Health			
U.S. Department of Health and Human Services —			
Passed through University of Chicago			
Re-Engineering Translation Research at the University of Chicago (UL1) with KKC — ARRA Funded	93.701	UL1RR024999-03S4	20,045
U.S. Department of Health and Human Services —			
Human Resources and Services Administration			
Scholarships for Disadvantaged Students — ARRA Funded	93.925	1 T08HP22572-01-00	189,482
Total all programs			$156,351,088

(Concluded)

CITY COLLEGES OF CHICAGO, COMMUNITY COLLEGE DISTRICT NO. 508

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 College, and Wilbur Wright College. The Board of Trustees, appointed by the Mayor of the City 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, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — 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' basic financial statements.

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, 2012, are primarily based on a federally negotiated higher education rate agreement.

Individual campuses' indirect cost rates for the fiscal year ended June 30, 2012, have been approved by the appropriate federal and state agencies.

3. FEDERAL AWARD THRESHOLD

The federal expenditure dollar threshold used to distinguish between Type A and Type B programs for fiscal year 2012 was $3,000,000.

4. 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, 2012, and are summarized as follows:

Guaranteed loan programs:	
Subsidized	$14,180,040
Unsubsidized	7,815,795
Parent plus	320,575
Total federal student loan programs	$22,316,410

5. OTHER NONCASH ASSISTANCE

Noncash federal awards totaling $364,305 were received as in-kind contributions for the Head Start Collaboration Grant and Head Start Support Services Grant.

6. FINDINGS AND NONCOMPLIANCE

The findings and noncompliance identified in connection with the 2012 Single Audit are disclosed in the schedule of findings and questioned costs.

7. SUBRECIPIENTS

City Colleges did not provide federal awards to subrecipients during the fiscal year ended June 30, 2012.

8. AMOUNT OF FEDERAL INSURANCE IN EFFECT DURING THE YEAR

No federal insurance was received by City Colleges during the year ended June 30, 2012.

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PART V:
CITY COLLEGES OF CHICAGO,
COMMUNITY COLLEGE DISTRICT NO. 508
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

CITY COLLEGES OF CHICAGO,
COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

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
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	Findings 2012-1, 2012-2, and 2012-3
• Noncompliance material to financial statements noted?	None

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None
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 OMB Circular A-133?	Finding 2012-4

(Continued)

CITY COLLEGES OF CHICAGO,
COMMUNITY COLLEGE DISTRICT NO. 508

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

SECTION I — IDENTIFICATION OF MAJOR PROGRAMS

CFDA Number	Name of Federal Program or Cluster
84.007/84.033/84.063/84.268	Student Financial Assistance Cluster
84.002A	Adult Education Grants Program
84.048	Perkins IV Grant/Career and Technical Education Program/CIMMA Technology Center
11.557	Broadband Technology Opportunities Program/ Public Computer Centers — ARRA Funded

- Dollar threshold used to distinguish Type A and Type B programs — $3,000,000
- Auditee qualified as a low-risk auditee? — No

(Concluded)

SECTION II — FINANCIAL STATEMENT FINDINGS

FINDING 2012-1 — Short-term and long-term investment presentation

Criteria — Short-term and long-term investments should be accurately presented on the financial statements and should reconcile to the amounts included within the investment footnote.

Condition — Investment reconciliations were not designed properly and the short-term and long-term investment financial statement line items were not reconciled to the amounts per the investment footnote.

Effect — Short-term investments were overstated by $33 million and long-term investments were understated by $33 million at June 30, 2012.

Cause — The reconciliation used to calculate short-term and long-term investments was not adequately designed and a high-level review of the basic financial statements and footnotes was not adequately performed.

Recommendation — Review investment reconciliation and general ledger categorization of short-term and long-term investments to ensure they are presented correctly within the basic financial statements. Perform a monitoring review of the investment footnote to ensure that amounts agree to the basic financial statements.

Views of the Responsible Officials — We concur. Management will review the investment reconciliation and general ledger categorization to ensure that investments are presented correctly as well as review the investment footnote.

FINDING 2012-2 — Schedule of Enrollment Errors

Criteria — Adequately trained management are required to prepare and submit the schedule of enrollment. Schedule of enrollment needs to be accurately prepared and submitted to the Illinois Community College Board (ICCB) on an annual basis.

Condition — During our testing of the schedule of enrollment, we noted the following errors:

- The generation of the schedule of enrollment was developed from the PeopleSoft system using incorrect filters. The original version was developed by including the credit hours for all students in a class; however, not all students were eligible to be claimed as they had not all remained in the class for the required time period. This resulted in an overstatement of approximately 27,000 credit hours claimed to the ICCB in its original submission.

- A total of 136 adult education credit hours that were claimed per the schedule of enrollment did not agree to the instructor's class rosters. As a result, students who had not remained in the class for the required time period were incorrectly claimed on the schedule of enrollment.

- A chargeback course, not related to the major/program, was incorrectly claimed.

Effect — The development and submission of the schedule of enrollment may not be completed in an efficient and effective manner causing significantly decreased quality in the overall schedule of enrollment reporting process.

Cause — Inadequate reviews in the preparation, development, and submission of the schedule of enrollment.

Recommendation — Ensure that management creates detailed documentation of the requirements for the preparation of the schedule of enrollment, including appropriate filters. Perform a management review on the schedule of enrollment, including reasonableness tests, to ensure that it has been prepared using the correct parameters prior to initial submission to ICCB. Develop a process whereby management agrees credit hours per the system to detailed class rosters on a sample basis throughout the year. Develop a monitoring procedure to ensure all chargebacks are only related to the student's major/program.

Views of the Responsible Officials — We concur. The cause of the use of the incorrect filters was due to a change in personnel from the prior year. This has since been rectified and we do not expect the same issue for the next fiscal year. While the finding of the 136 credit hours is relatively small in relation to the total number of credit hours, management will compare credit hours in the system to the detailed class rosters. Finally, the cause related to the chargebacks errors was due to a change in personnel from the prior year. Management will provide training as well as review a monitoring procedure of invoices as of each term.

FINDING 2012-3 — Expense Cutoff

Criteria — City Colleges' current expense cutoff policy allows for multiyear invoices to be incurred in one fiscal year for financial reporting purposes.

Condition — City Colleges does not maintain effective accounting and financial reporting policies and procedures to ensure that financial activity is recorded in accordance with accounting principles generally accepted in the United States of America (GAAP).

Effect — City Colleges does not properly account for, analyze, and report multi-year invoices, and as a result expenses could be recorded in the incorrect period.

Cause — City Colleges does not have a policy in place to review multiyear invoices.

Recommendation — Develop a process to appropriately analyze and record multiyear invoices. Monitor the cutoff policies and procedures to ensure continued financial accounting and expenses are recorded in the incorrect period.

Views of Responsible Officials — We concur. The controller's staff will communicate the appropriate procedure for recording expenses that span fiscal years to staff responsible for them. The controller's staff will review all annual subscriptions, memberships, agreements, and other continuing activities monthly to ensure proper posting and will review interim and annual financial statements to ensure proper accrual of expenses.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

FINDING 2012 — 4

Student Financial Assistance Cluster — CFDA 84.007, 84.033, 84.063, 84.268, U.S. Department of Education

Criteria — 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).

Condition — Of the 60 selections tested for Return of Title IV (R2T4) funds, we noted that one selection was not deposited into the student financial aid accounts or returned to the appropriate lender within the required 45 days after the withdrawal date.

Effect — Errors can result in penalties and the reduction of future revenue funding.

Cause — Untimely returns and deposits made resulted from lack of monitoring of the timing of returns of the R2T4 funds.

Context — The expenditures for student financial assistance cluster are approximately $142.7 million out of total federal expenditures of $156 million.

Recommendation — Review the process over the return of Title IV funds consistently throughout the year and implement policies, procedures, and timelines for all appropriate personnel to allow for timely submission.

Views of Responsible Officials — Refer to page 63 for management's response and corrective action plan.

SECTION IV — CORRECTIVE ACTION PLAN

FINDING 2012-4

Corrective Action Plan

Person Responsible: District Director of Student Financial Aid   Completion Date: Fiscal 2013

We concur with this finding.

The review of the R2T4 transactions continues to be one of the several methods used to measure the effectiveness of the financial aid operations. We will provide a monthly status report to executive management as to the status of the R2T4 review process for each college. In collaboration with the Office of Information Technology, we have created an aging report of R2T4 calculations to be performed to ensure the timely submission of these calculations. In addition, all of the seven campuses have hired an Assistant Financial Aid Director. These additional resources should help eliminate late R2T4 calculations.

PART VI:
CITY COLLEGES OF CHICAGO,
COMMUNITY COLLEGE DISTRICT NO. 508
SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

CITY COLLEGES OF CHICAGO,
COMMUNITY COLLEGE DISTRICT NO. 508

SUMMARY OF PRIOR-YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

PRIOR-YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2011 — 1

Student Financial Assistance Cluster — CFDA 84.007, 84.033, 84.063, 84.268, 84.375
U.S. Department of Education

Criteria — 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).

Condition — Of the 60 selections tested for Return of Title IV (R2T4) funds, we noted that three selections were not deposited into the student financial aid accounts or returned to the appropriate lender within the 45 days after the withdrawal date.

Effect — These errors can result in penalties and reduction of future revenue funding.

Cause — Errors are caused by lack of monitoring of the timing of returns of the R2T4 funds.

Context — The expenditures for student financial assistance cluster are approximately $124.2 million out of total federal expenditures of $140.2 million.

Recommendation — Review the return consistently throughout the year and implement policies, procedures, and timelines for all appropriate personnel to allow for timely submission.

Views of Responsible Officials — Person Responsible: District Director of Student Financial Aid

We concur with this finding. The review of the R2T4 transactions continues to be one of the several methods used to measure the effectiveness of the financial aid operations. We will provide a monthly status report to executive management as to the status of the R2T4 review process for each college. In collaboration with the Office of Information Technology, we have created an aging report of R2T4 calculations to be performed to ensure the timely submission of these calculations. In addition, all of the seven campuses have hired an Assistant Financial Aid Director. These additional resources should help eliminate late R2T4 calculations.

Status — Refer to the repeated finding in the current year at 2012-4.