

# **Sauk Valley Community College District 506**

Financial Report  
June 30, 2009

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

Board of Trustees  
Sauk Valley Community College District 506  
Dixon, Illinois

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit, of Sauk Valley Community College District 506 as of and for the year ended June 30, 2009, which collectively comprise Sauk Valley Community College District 506's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sauk Valley Community College District 506's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinions.

We were unable to obtain sufficient evidence to support the fair market value of the discretely presented component unit's property and equipment in order to assess the amount of impairment of these assets, stated at \$5,725,797, net of accumulated depreciation of \$682,784 at June 30, 2009, as described in Note 11 to the financial statements. The financial statements do not include any adjustments that might result from this departure from generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Sauk Valley Community College District 506 as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. As described above, we are unable to express, and we do not express, an opinion on the discretely presented component unit's financial statements.

The accompanying financial statements have been prepared assuming the discretely presented component unit will continue as a going concern. As discussed in Note 11 to the financial statements, the discretely presented component unit has suffered recurring losses and is in default of certain debt agreements, which results in the debt being reclassified as current. Current liabilities exceed current assets by \$7,243,568. There is a dispute between the discretely presented component unit and its lender that could result in litigation with a range of loss to the discretely presented component unit from zero to a complete loss of all assets. These factors raise substantial doubt about the ability of the discretely presented component unit to continue as a going concern. As further described in Note 11, management has no formal plans to resolve these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Notes 10 and 11 to the basic financial statements, the beginning net assets of Sauk Valley Community College District 506 and its discretely presented component unit have been restated to correct for an error in accounting for grant funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2009 on our consideration of Sauk Valley Community College District 506's 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 audit.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sauk Valley Community College District 506's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the other supplementary financial information listed in the table of contents, are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Rockford, Illinois  
April 30, 2010

## **SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506 MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2009**

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### **Using This Annual Report**

As the management of Sauk Valley Community College (the College), we offer the readers of the College's financial statements this narrative overview and analysis of the financial activities of the College for the year ended June 30, 2009.

The MD&A provides an overview of the College's financial position at June 30, 2009 and the results of operations for the year. This summary should not be taken as a replacement for the audit report, which consists of the financial statements, notes to the financial statements, required and other supplementary information.

The financial statements, as presented under the reporting model established by GASB Statement No. 35, focus on the College as a whole. The basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The Statement of Net Assets focuses on the financial condition of the College. This statement combines and consolidates current financial resources (short-term expendable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities, which are supported mainly by property taxes and by state and other revenues. This approach is intended to summarize and simplify the user's analysis of the cost of various College services to students and the public.

The remainder of the MD&A highlights the structure and contents of the primary government's financial statements. For detailed information pertaining to the Foundation, (the College's discretely presented component unit) refer to the separately issued Foundation financial statements for the year ended June 30, 2009.

### **Financial Highlights**

The College is one of 39 community college districts in the State of Illinois. It is located in the northwest corner of the state. The communities it serves are predominantly rural, with agriculture and light manufacturing prominent in the region.

The College district encompasses 1,466 square miles and includes portions of six counties: Bureau, Carroll, Henry, Lee, Ogle and Whiteside. The district has a population of just over 100,000, with the majority of that population concentrated in and near the towns of Dixon, Sterling, and Rock Falls.

Financial highlights for the College included the following for the year ended June 30, 2009:

- The College paid down approximately \$1,200,000 of long-term debt during the year.
- Net assets increase during 2009 by approximately \$1,661,000.
- During 2009, management identified and corrected for an error in beginning net assets of approximately \$2,442,000.
- The College's enrollment remained steady through 2009, however credit hours have begun to increase and in 2010, are up about 12%.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2009**

**Components of Financial Statements**

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the College's financial activities.
- The basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. These provide information about the activities of the College as a whole and present an overall view of the College's finances. Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

**Reporting on the College's Financial Activities**

Statement of Net Assets: The statement of net assets presents the assets, liabilities and net assets of the College as a whole as of the end of the fiscal year. The statement of net assets is a point-in-time financial statement. The purpose of this statement is to present a fiscal snapshot of the College to the readers of the financial statements. The statement of net assets includes year-end information concerning current and noncurrent assets, current and noncurrent liabilities and net assets (assets less liabilities). Over time, readers of the financial statements will be able to determine the College's financial position by analyzing the increases and decreases in net assets. This statement is also a good source for readers to determine how much the College owes to outside vendors and creditors. The statement also presents the available assets that can be used to satisfy those liabilities.

The College's financial position is summarized as follows for the years ended June 30, 2009 and 2008:

**Financial Analysis of the College as a Whole**

**Net Assets**

	2009	(Restated) 2008	Increase (Decrease)	Percent Change
Current assets	\$ 17,527,109	\$ 18,724,236	\$ (1,197,127)	-6.4%
Noncurrent assets				
Capital assets, net	12,447,030	12,130,982	316,048	2.6%
Other	6,270,764	5,959,212	311,552	5.2%
<b>Total assets</b>	<b>36,244,903</b>	<b>36,814,430</b>	<b>(569,527)</b>	<b>-1.5%</b>
Current liabilities	6,094,526	7,065,530	(971,004)	-13.7%
Noncurrent liabilities	1,335,000	2,594,873	(1,259,873)	-48.6%
<b>Total liabilities</b>	<b>7,429,526</b>	<b>9,660,403</b>	<b>(2,230,877)</b>	<b>-23.1%</b>
Net assets:				
Investment in capital assets, net of related debt	9,852,157	8,407,300	1,444,857	17.2%
Restricted	16,839,044	17,278,065	(439,021)	-2.5%
Unrestricted	2,124,176	1,468,662	655,514	44.6%
<b>Total net assets</b>	<b>\$ 28,815,377</b>	<b>\$ 27,154,027</b>	<b>1,661,350</b>	<b>6.1%</b>

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2009**

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The College's total net assets at June 30, 2009 increased \$1,661,350, an increase of 6 percent.

In fiscal year 2009, the College's total assets increased \$569,527. Current assets decreased \$1,197,127. This decrease is due primarily to a decrease in student receivables. Student receivables decreased approximately \$1,450,000 due to the college recording receivables and deferred revenue in the prior year for the Fall 2008 semester. In 2009, the College did not include a receivable and deferred revenue for the Fall 2009 semester. In addition, government claims and grants receivable increased due to a delay in payments received from the Illinois Community College Board (ICCB). Noncurrent assets increased \$627,600 primarily due capital projects, specifically the improvements made to the entryway into the College campus.

Total liabilities decreased \$2,230,877. Current liabilities decreased \$971,004 primarily due to a decrease in deferred revenue as discussed above. Noncurrent liabilities decreased \$1,259,873 due to the payment made on the general obligation bond.

In 2008, total net assets increased \$1,728,664. Compared to fiscal year 2007, revenues increased \$874,189 and expenses increased \$581,559, resulting in a \$292,630 gain in the change in net assets from fiscal year 2007 to fiscal year 2008.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2009**

Revenues and expenses for the years ended June 30, 2009 and 2008 are as follows:

	2009	2008	Increase (Decrease)	Percent Change
<b>Operating Revenues</b>				
Tuition and fees	\$ 2,259,727	\$ 2,262,817	\$ (3,090)	-0.1%
Auxiliary	409,222	347,342	61,880	17.8%
<b>Nonoperating Revenues</b>				
State sources	5,393,884	5,068,235	325,649	6.4%
Federal sources	4,485,629	4,208,751	276,878	6.6%
Local property tax	6,363,445	6,152,946	210,499	3.4%
Interest income	178,435	794,499	(616,064)	-77.5%
Other	505,566	383,672	121,894	31.8%
<b>Total revenues</b>	<b>19,595,908</b>	<b>19,218,262</b>	<b>377,646</b>	<b>2.0%</b>
<b>Expenses</b>				
Instruction	5,739,017	5,530,637	208,380	0.1%
Academic support	1,321,953	1,326,691	(4,738)	-0.4%
Student services	1,456,313	1,416,859	39,454	2.8%
Public services	1,042,811	874,244	168,567	19.3%
Independent operations	172,783	340,098	(167,315)	-49.2%
Operations and maintenance	1,946,563	1,766,183	180,380	10.2%
Institutional support	2,623,552	2,613,763	9,789	0.4%
Scholarships, grants and waivers	2,669,330	2,555,949	113,381	4.4%
Depreciation	837,524	928,122	(90,598)	-9.8%
Interest	124,712	137,052	(12,340)	-9.0%
<b>Total expenses</b>	<b>17,934,558</b>	<b>17,489,598</b>	<b>444,960</b>	<b>1.4%</b>
<b>Change in net assets</b>	<b>1,661,350</b>	<b>1,728,664</b>	<b>(67,314)</b>	<b>-3.9%</b>
Net assets, beginning of year, as restated	27,154,027	25,425,363	1,728,664	6.8%
<b>Net assets, end of year</b>	<b>\$ 28,815,377</b>	<b>\$ 27,154,027</b>	<b>\$ 1,661,350</b>	<b>6.1%</b>

At June 30, 2009 net assets increased \$1,661,350. Compared to fiscal year 2008, revenues increased \$377,646 and expenses increased \$444,960.

Operating revenue remained consistent with prior year. Nonoperating revenue increased slightly over fiscal year 2008 due to higher property taxes resulting from a 4 percent increase in equalized assessed valuation, increased student financial aid, and increased state formula funds. Investment income decreased due to low interest rates.

Expenses increased \$444,960. This was due primarily a nominal increase in salaries, benefits and other expenses throughout the College. The College also incurred additional expenses during the year on various insignificant maintenance projects.

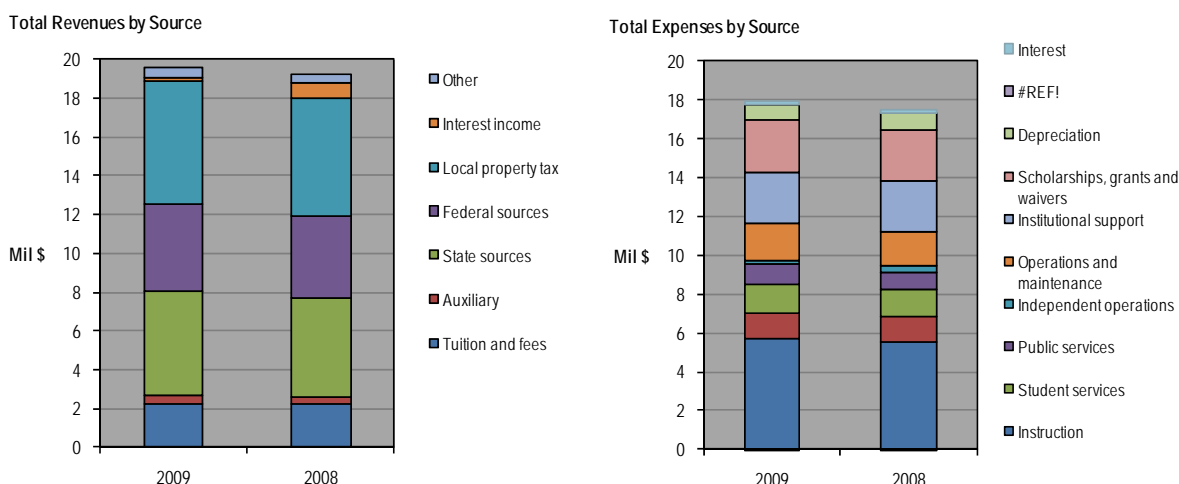
**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2009**

In 2008, net assets increased \$1,728,664. Revenue increased \$874,189 due to higher property taxes resulting from a 2 percent increase in equalized assessed valuation, increased federal student aid, the expansion of two public service grants, and increased investment proceeds. Tuition and fees were lower due to dual credit courses taught by Whiteside Area Career Center. State funding was stagnant overall.

The increase in expenses was due to the expansion of two public service grants, medical costs, utility costs, federal student loans, and the interest expense on the Series 2007 Bond issue. An annual salary increase was offset by position reductions.

The following graphs depict revenues and expenses for the years ended June 30, 2009 and 2008:



**Capital Assets**

At June 30, 2009, the College had \$23,222,386 invested in land, buildings, land improvements, and equipment. Of this amount, \$10,775,356 in depreciation has accumulated over the years, with \$837,524 being incurred in the current year. The College's net book value of capital assets at June 30, 2009 is \$12,447,030.

Total additions for the year were \$1,153,572 with \$654,239 in buildings and land improvements, \$256,228 in construction in progress and the rest in equipment. Most of the equipment additions during the year were financed through either funding bonds or grants, while most of the building additions were financed through local property tax.

The College has committed \$907,000 for use as local match on a State-funded project to renovate the third floor science labs. The money is being held in a reserved account in the Operations and Maintenance (Restricted) Fund.

**Long-Term Debt Activity**

At June 30, 2009, the College had \$2,590,000 in general long-term debt for Series 2007 funding bonds. Repayments of this debt, including interest, will be approximately \$1,350,000 annually for fiscal years 2010 and 2011.

The College's most recent Moody's bond rating (2007) was "A3." State statutes limit the amount of debt that a school district may issue. The current debt limit for the College is approximately \$39,700,000 under that statutory limit.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2009**

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**Factors Impacting the College's Future**

For fiscal year 2010, the College has increased tuition and fees by approximately 2%. This increase, together with increased credit hours and enrollment, is expected to assist the College in maintaining a relatively constant revenue stream despite the state of Illinois' financial woes. During 2010, the state of Illinois has been slow in paying and the College is anticipating a \$1.1 million deferment in state payments at the end of the year.

In addition, in fiscal year 2010, the College has started a significant capital project relating to the campus chiller. Expected costs are approximately \$1.5 million and financing for this project are through increased tax levies and prior fund surpluses.

**Requests for Information**

This financial report is designed to provide a general overview of Sauk Valley Community College's finances for all those with interest in the topic. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to:

Paula S. Meyer  
Dean of Business Services  
Sauk Valley Community College  
173 Illinois Rte. 2  
Dixon, IL 61021  
Phone number (815) 288-5511

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

STATEMENT OF NET ASSETS  
June 30, 2009

	Primary Institution	Component Unit
	Business-Type Activities	Foundation
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,393,842	\$ 82,712
Investments	7,569,812	-
Receivables		-
Property taxes	4,516,019	-
Student tuition and fees, net of allowance for uncollectible accounts of \$70,000	72,821	-
Other receivables	137,877	12,766
Due from Foundation	2,017,663	
Accrued interest and government claims and grants	1,709,047	-
Inventories	2,559	-
Prepaid expenses	107,469	-
Restricted investments	-	2,017,663
<b>Total current assets</b>	<b>17,527,109</b>	<b>2,113,141</b>
Noncurrent assets		
Restricted cash and investments	6,270,764	1,614,129
Depreciable capital assets, net of accumulated depreciation	12,028,152	5,617,797
Nondepreciable capital assets	418,878	108,000
Debt issuance cost, net of amortization of \$97,924	-	520,544
<b>Total noncurrent assets</b>	<b>18,717,794</b>	<b>7,860,470</b>
<b>Total assets</b>	<b>\$ 36,244,903</b>	<b>\$ 9,973,611</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 470,481	\$ 7,960
Interest payable	41,548	206,228
Accrued expenses	552,892	-
Deferred revenue	3,737,492	4,858
Due to student organizations	32,240	-
Current maturities of obligations under capital lease agreements	4,873	-
Current maturities of general obligation bonds payable	1,255,000	7,120,000
Due to College	-	2,017,663
<b>Total current liabilities</b>	<b>6,094,526</b>	<b>9,356,709</b>
Noncurrent liabilities		
Resident deposits	-	7,800
General obligation bonds payable, net of current maturities	1,335,000	-
<b>Total noncurrent liabilities</b>	<b>1,335,000</b>	<b>7,800</b>
<b>Total liabilities</b>	<b>7,429,526</b>	<b>9,364,509</b>
<b>NET ASSETS</b>		
Investment in capital assets, net of related debt	9,852,157	(1,394,203)
Restricted for:		
Nonexpendable	46,059	1,080,405
Expendable:		
Scholarships and grants	2,150,698	606,559
Capital projects	5,365,654	-
Debt service	742,180	-
Liability protection settlement	6,516,004	-
Other	2,018,449	-
Unrestricted	2,124,176	316,341
<b>Total net assets</b>	<b>28,815,377</b>	<b>609,102</b>
<b>Total liabilities and net assets</b>	<b>\$ 36,244,903</b>	<b>\$ 9,973,611</b>

See Notes to Financial Statements.

## SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2009

	Primary Institution	Component Unit
	Business-Type Activities	Foundation
<b>REVENUES</b>		
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$2,430,435	\$ 2,259,727	\$ -
Auxiliary enterprises revenue	409,222	-
Contributions	-	274,266
Rent revenue	-	359,498
Other	-	51,339
<b>Total operating revenues</b>	<b>2,668,949</b>	<b>685,103</b>
<b>EXPENSES</b>		
Operating expenditures:		
Instruction	5,739,017	-
Academic support	1,321,953	-
Student services and aids	1,456,313	-
Public services	1,042,811	-
Independent operations	172,783	-
Operations and maintenance of plant	1,946,563	-
Institutional support	2,623,552	425,073
Scholarships, student grants, and waivers	2,669,330	375,899
Depreciation and amortization	837,524	220,470
<b>Total operating expenditures</b>	<b>17,809,846</b>	<b>1,021,442</b>
<b>Operating (loss)</b>	<b>(15,140,897)</b>	<b>(336,339)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Local property taxes	6,363,445	-
State sources	5,393,884	-
Federal sources	4,485,629	-
Interest income	565,657	51,160
Net loss on sale of investments	-	(76,957)
Net unrealized loss on investments	(387,222)	(85,676)
Other sources	505,566	-
Interest expense	(124,712)	(250,551)
<b>Nonoperating revenues (expenses), net</b>	<b>16,802,247</b>	<b>(362,024)</b>
Change in net assets	1,661,350	(698,363)
<b>Net assets, beginning of year, as restated (Notes 10 and 11)</b>	<b>27,154,027</b>	<b>1,307,465</b>
<b>Net assets, end of year</b>	<b>\$ 28,815,377</b>	<b>\$ 609,102</b>

See Notes to Financial Statements.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

STATEMENT OF CASH FLOWS

Year Ended June 30, 2009

	Primary Institution <u>Business-Type Activities</u>
<b>Cash Flows From Operating Activities</b>	
Cash received from tuition and fees	\$ 2,378,415
Cash received from auxiliary enterprises, rent and other revenue	445,094
Cash paid to employees	(10,438,749)
Cash paid to suppliers	(5,577,891)
<b>Net cash used in operating activities</b>	<u>(13,193,131)</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Cash received from local property taxes	6,733,551
Cash received from state appropriations	3,020,573
Cash received from federal sources	4,527,203
Cash received from other sources	534,350
<b>Net cash provided by noncapital financing activities</b>	<u>14,815,677</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Purchases of capital assets	(1,153,572)
Repayment of bonds	(1,115,000)
Interest paid on bonds	(196,946)
Capital lease payments	(13,809)
<b>Net cash used in capital and related financing activities</b>	<u>(2,479,327)</u>
<b>Cash Flows From Investing Activities</b>	
Interest received	578,592
Investment purchases	(16,305,399)
Investment maturities	15,455,387
<b>Net cash used in investing activities</b>	<u>(271,420)</u>
<b>Net decrease in cash</b>	(1,128,201)
Cash and equivalents, beginning of year	<u>2,522,043</u>
Cash and equivalents, end of year	<u>\$ 1,393,842</u>

(continued)

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

STATEMENT OF CASH FLOWS (CONTINUED)  
For the Year Ended June 30, 2009

Primary  
Institution  

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Business-Type  
Activities

Reconciliation of net operating loss to net cash  
used in operating activities:

Operating loss	\$ (15,140,897)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation/amortization	837,524
On-behalf payments for SURS	893,673
Changes in operating assets and liabilities:	
Tuition and fees and other receivables	43,250
Inventories	(786)
Prepaid expenses	(74,718)
Deferred revenue	(16,317)
Accounts payable	101,190
Accrued salaries	17,917
Accrued compensated absences	7,948
Accrued expenses	20,434
Due to student organizations	6,341
Deferred tuition and fees	111,310
	<hr/>
<b>Net cash used in operating activities</b>	<b>\$ (13,193,131)</b>

See Notes to Financial Statements.

## SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies

Nature of entity: Sauk Valley Community College District 506 (the College) is organized in accordance with Chapter 110 of the Illinois Compiled Statutes. The Board of Trustees (Board) has the governing responsibilities over all activities related to public post and secondary school education within the jurisdiction of the College. The College receives funding from local, state and federal sources and must comply with the requirements established by these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management and the responsibility to significantly influence operations and primary accountability for fiscal matters.

Financial reporting entity: Accounting principles generally accepted in the United States of America require that the financial statements of the reporting entity include: (1) the primary government, (2) organizations of which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Sauk Valley Community College Foundation (the Foundation) has a significant relationship with the College and is therefore included as a discretely presented component unit of the College. The Foundation is reported in a separate column in the basic financial statements to emphasize it is legally separate from the College.

The accounting policies of the College 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). The college reports are based on all applicable Government 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 Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Discretely presented component unit: Sauk Valley Community College Foundation (the Foundation) is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to provide scholarships to students attending the College. The Board of the Foundation is self-perpetuating. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted for the benefit of the students of the college, and thereby the College itself, by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of students of the College, the Foundation is considered a component unit of the College. The Foundation is the sole member of a limited liability company that benefits the College. Sauk Valley Student Housing LLC was created to finance, construct and manage a student housing facility for Sauk Valley Community College.

Complete financial statements for the Foundation can be obtained from the Foundation. Additionally, footnotes pertaining to the Foundation's financial statements are included in Note 11 to these financial statements.

NOTES TO FINANCIAL STATEMENTS

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**Note 1. Summary of Significant Accounting Policies (Continued)**

The following is a summary of the more significant policies:

Measurement focus, basis of accounting, and financial statement presentation: For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-fund transactions have been eliminated. Non-exchange transactions, in which the College receives value without directly giving equal value in return, include property taxes, state appropriations and federal, state and local grants. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance. Revenue from grant and state appropriations is 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 period when the use is first permitted, matching requirements, in which the College must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the College on a reimbursement basis.

Accounting estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses, including functional allocations, during the reporting period. Actual results could differ from those estimates.

Cash equivalents: Cash includes deposits held at banks plus small amounts maintained for a change fund. Cash equivalents are defined as short-term highly liquid investments readily converted to cash with original maturities of three months or less. These cash equivalents are readily converted back to cash, as operating funds are needed. However, restricted cash is excluded from cash equivalents. The College has deposits with financial institutions, which at times exceed the federally insured limits. Management does not believe this represents any significant risk to the Foundation.

Investments: Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair value is based on quoted market prices for the same or similar investments.

Restricted cash, cash equivalents and investments: Restricted cash and cash equivalents and investments are primarily restricted for the purpose of constructing and purchasing capital assets, or are restricted for use by state statute that gives the College the right to levy for certain expenses.

Receivables: All property tax, student tuition and government claims and grant receivables are expected to be received within one year. Government claims and grants are from state funding agencies. The College has a reserve of \$70,000 for uncollectible student tuition and fees. The College wrote off approximately \$8,400 of tuition and fees as of June 30, 2009.

Inventories: Inventories consist of supplies held in the storeroom for internal use. Inventories are recorded at the lower of cost or market, on a first-in, first-out basis. The cost is recorded as an expense at the time individual inventory items are utilized or sold.

NOTES TO FINANCIAL STATEMENTS

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**Note 1. Summary of Significant Accounting Policies (Continued)**

Capital assets: Capital assets include land, land improvements, buildings and equipment. The College defines capital assets as assets with an initial individual cost of more than \$2,500, and a useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Gains and losses realized upon retirement or disposition of capital assets are recognized in income as incurred. Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Land improvements	50 years
Buildings	50 years
Technology	3 years
Equipment	3-7 years

Compensated absences: Compensated absences are those absences for which employees will be paid, such as vacation leave. A liability for compensated absences that are attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the College and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the College and its employees are accounted for in the period in which such services are rendered or in which such events take place.

Unearned revenue: Deferred tuition revenue represents that portion of tuition and other fees received before June 30, 2009, but applicable to sessions after June 30, 2009.

Net assets: The College's net assets are classified as follows:

*Invested in capital assets, net of related debt* — This represents the College's total investment in capital assets, net of accumulated depreciation and related debt.

*Restricted net assets* — This includes resources that the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. When both expendable restricted and unrestricted resources are available for use, it is the College's policy to use restricted resources first, then unrestricted resources when they are needed.

*Unrestricted net assets* — This includes 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 the College and may be used at the discretion of the governing board to meet current expenses for any purpose.

Classification of revenues and expenses: Operating revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees and sales and service fees. Revenue from exchange transactions is recognized when earned. Student tuition and fees are recorded on the statement of revenues, expenses and changes in net assets, net of scholarship allowance and student aid. Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as local property taxes, state appropriations, most federal, state and local grants and interest.

Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506**

**NOTES TO FINANCIAL STATEMENTS**

**Note 2. Deposits and Investments**

The College is allowed to invest funds in accordance with the Illinois Community College Act and the Public Funds Investment Act. In general, the College may invest in obligations of the United States of America or its agencies (or guaranteed by the full faith and credit of same) and certain time deposits and short-term obligations as defined in the Public Fund Investment Act. No one institution may have more than 50% of the College's invested funds at any one time. Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. Deposits in excess of the federally insured amounts must be appropriately collateralized to the extent of 110%, with collateralization evidence in writing, and with third-party safekeeping. As of June 30, 2009, the College has deposits with a carrying value of \$7,477,554 and with bank balances of \$7,926,375. None of the College's bank balance was exposed to custodial credit risk.

As of June 30, 2009, the College had the following investments:

Investment Type	Fair Value	Investment Maturities (in years)	
		Less Than 1	1-5
Illinois Funds	\$ 1,569,812	\$ 1,569,812	\$ -
Federal Home Loan Bank	3,896,193	1,687,227	2,208,966
Federal Home Loan Mortgage (Freddie Mac)	618,665	-	618,665
Federal Farm Credit Bank	1,672,194	424,728	1,247,466
<b>Total</b>	<b>\$ 7,756,864</b>	<b>\$ 3,681,767</b>	<b>\$ 4,075,097</b>

Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940.

The State Treasurer maintains the Illinois Funds Money Market 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 25 days. The fair value of the College's investment in the funds is the same as the value of the pool shares. The fund is audited annually by an outside independent auditor and copies of the report are distributed to participants. The fund maintains a Standard and Poor's AAA rating. The College's investments in the Illinois Funds are not required to be categorized because these are not securities. The relationship between the College 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 fund are classified as investments even though some could be withdrawn on a day's notice. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of the Illinois Public Funds Investment Act, 30 ILCS 235.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

NOTES TO FINANCIAL STATEMENTS

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**Note 2. Deposits and Investments (Continued)**

*Custodial credit risk:* This is the risk that in the event of a financial institution failure, the College's deposits may not be returned to it. The College's policy for investments and deposits requires collateralization on all deposits and investments of 110% with collateralization evidence in writing, and with third-party safekeeping in the College's name. As of June 30, 2009, none of the College's investment balance was exposed to custodial credit risk.

*Interest rate risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates, the College does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The College's investment policy minimizes credit risk by limiting investments to the safest type of securities and diversifying the investment portfolio.

As of June 30, 2009, the College's investments were rated as follows by Moody's Investor Services:

<u>Investment Name</u>	<u>Type</u>	<u>Rating</u>
Federal Home Loan Bank	Bonds	Aaa
Federal Home Loan Mortgage	Bonds	Aaa
Federal Farm Credit Bank	Bonds	Aaa

More than 5.00% of the College's investments are in the following:

FHLB - Maturity 06/30/2010	5.43%
FHLB - Maturity 06/10/2011	5.04%

At June 30, 2009, the balances noted above are presented on the statement of net assets as follows:

Cash	\$ 1,393,842
Investments	7,569,812
Restricted cash and investments	6,270,764
	<u>\$ 15,234,418</u>

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506**

**NOTES TO FINANCIAL STATEMENTS**

**Note 3. Property Taxes**

The College's property taxes are levied each year on the basis of the equalized assessed property values as of January 1 of that year. Assessed values are established by each of the respective counties. Property taxes are billed and collected by the various counties included within the College's boundaries. These taxes are assessed in December for the following collection year and are payable to the College in two installments on the following June and September, with disbursements to the College normally made within 30 days. The levy becomes an enforceable lien on the property as of January 1 of the levy year. The property tax levy passed in December 2008 was recognized as a receivable. Revenue is recognized in the period for which the levy is budgeted to finance.

The following are the assessed tax rates per \$100 of assessed valuation by various counties within the College for the preceding three levy years:

	Statutory Maximum Rate	2006 Rate	2007 Rate	2008 Rate
Educational Fund	0.2450	0.2450	0.2450	0.2450
Operations and Maintenance Fund	0.0300	0.0300	0.0300	0.0300
Operations and Maintenance Fund - Restricted	0.0500	0.0487	0.0463	0.0494
Bond and Interest Fund	None	0.0962	0.0901	0.0924
Liability, Protection, and Settlement Fund*	None	0.0367	0.0252	0.0243
Audit Fund	0.0050	0.0021	0.0024	0.0030
<b>Total</b>		<u>0.4587</u>	<u>0.4390</u>	<u>0.4441</u>

**Note 4. Due From Foundation**

On April 1, 1990, the Foundation entered into a Gift Transfer and Management Agreement with the College whereby the Foundation will manage both restricted and unrestricted gifts and grants received by Sauk Valley Community College at the College's discretion. The agreement provides that while the Foundation is managing the funds, the control over the funds is maintained by the College. The College may request a transfer of the assets back to the College at any time upon a written request authorized by the College's Board of Trustees. Total unrestricted and restricted gifts and grants held on behalf of the College totaled \$2,017,663 at June 30, 2009. These amounts are included in balances due from the Foundation at June 30, 2009. These amounts represent two Endowment Challenge Grants (grant one and grant two) received by the College. The grants required the College to establish a term endowment for a period of 20 years. At the end of the grant period, or term endowment, the endowment funds are to be used for the benefit and operations of the College. The grant period of grant one is May 1, 1990 to April 30, 2010; the grant period of grant two is June 1, 1993 to May 31, 2013. See Note 10 for a discussion of a restatement of these items

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506**

**NOTES TO FINANCIAL STATEMENTS**

**Note 5. Capital Assets and Commitments**

A summary of the changes in capital assets for the College for the year ended June 30, 2009, is as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
<b>Nondepreciated assets:</b>				
Land	\$ 162,650	\$ -	\$ -	\$ 162,650
Construction in process	-	256,228	-	256,228
Total nondepreciated assets	162,650	256,228	-	418,878
<b>Depreciated assets:</b>				
Land improvements	1,492,675	-	-	1,492,675
Buildings	14,448,130	654,239	-	15,102,369
Equipment	6,158,010	243,105	192,651	6,208,464
Total depreciated capital assets	22,098,815	897,344	192,651	22,803,508
<b>Less accumulated depreciation:</b>				
Land improvements	715,556	29,854	-	745,410
Buildings	4,257,218	290,480	-	4,547,698
Equipment	5,157,709	517,190	192,651	5,482,248
Total accumulated depreciation	10,130,483	837,524	192,651	10,775,356
Depreciable assets, net	11,968,332	59,820	-	12,028,152
Capital assets, net	\$ 12,130,982	\$ 316,048	\$ -	\$ 12,447,030

As of December 31, 2009, the College had outstanding commitments for future construction of approximately \$225,000.

**Note 6. Long-Term Debt**

The College issued general obligation bonds dated September 12, 2007 in the amount of \$3,705,000 to pay off general obligation debt certificates in the amount of \$3,600,000 dated June 9, 2007. The issue provides for serial retirement of principal on February 1 of each year with interest due February 1 and August 1, at rates of 3.80% - 3.85%. The annual cash flow requirements of principal and interest are as follows:

Fiscal Year Ending June 30,	Interest Rate	Principal	Interest	Total
2010	3.850%	\$ 1,255,000	\$ 99,715	\$ 1,354,715
2011	3.850%	1,335,000	51,397	1,386,397
<b>Total</b>		<b>\$ 2,590,000</b>	<b>\$ 151,112</b>	<b>\$ 2,741,112</b>

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506**

**NOTES TO FINANCIAL STATEMENTS**

**Note 6. Long-Term Debt (Continued)**

The following is a summary of the long-term debt activity for the year ended June 30, 2009:

	Balance June 30, 2008	Payments	Balance June 30, 2009	Due Within One Year
General obligation bonds	\$ 3,705,000	\$ (1,115,000)	\$ 2,590,000	\$ 1,255,000

The College has long-term lease liability of \$4,873 at June 30, 2009 due within one year.

The following is a schedule of the legal debt margin of the College as of June 30, 2009:

Assessed valuation - 2008 levy	\$ 1,471,693,830
Debt limit - 2.875% of assessed valuation	\$ 42,311,198
Less indebtedness	2,594,873
Legal debt margin, June 30,2009	\$ 39,716,325

**Note 7. Retirement Commitments**

The College contributes to the State Universities Retirement System of Illinois (SURS), a cost sharing multiple employer defined pension plan with a special funding situation whereby the State of Illinois (State) makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and 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.

Plan members are required to contribute 8% 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 for June 30, 2009, 2008, and 2007 was 18.61%, 10.61% and 10.18%, respectively, of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions on behalf of the College to SURS for the years ended June 30, 2009, 2008, and 2007 were \$860,936, \$693,708, and \$505,663, respectively, equal to the required contributions for each year.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 7. Retirement Commitments (Continued)**

However, when college employees are paid from special trust or federal funds, which are administered by the College, the College must pay the retirement costs normally paid by the State. The employer contributions to SURS for the years ending June 30, 2009, 2008, and 2007 were \$26,070, \$30,440, and \$27,554, respectively, equal to the required contributions for each year.

The College has no further liability to the SURS since further deficits will be financed by the State.

**Note 8. Accrued Compensated Absences**

As of June 30, 2009, employees had earned but not taken annual vacation leave, which at salary rates in effect at the end of the year totaled approximately \$282,000. The College has accrued this amount on the statement of net assets.

**Note 9. Risk Management**

The College is exposed to various risks of loss related to torts, property damage and general business risks. To cover such risks, the College participates in the Illinois Community College Risk Management Consortium (Consortium), which was established in 1981 by several Chicago area community colleges as a means of reducing the cost of general liability insurance. The Consortium is a public entity risk pool currently operating as a common risk management and insurance program for the member colleges. The main purpose of the Consortium is to jointly self-insure certain risks up to an agreed upon retention limit and to obtain excess catastrophic coverage and aggregate stop loss reinsurance over the selected retention limit. No settlement has exceeded coverage since establishment of the Consortium. In 1992, the Consortium added statutory worker's compensation coverage. In fiscal year 2009 the College paid \$125,830 to the Consortium for property, liability and worker's compensation protection. Since the Consortium requests initial payments to cover substantially any losses to be incurred for that policy year, the College anticipates no further liabilities for incurred losses.

During the year ended June 30, 1993, the College adopted a partial self-insurance plan. The College is responsible for the first \$60,000 of covered medical expenses for each insured employee and covered family member. Any claims exceeding \$60,000 up to \$1,940,000 per individual are covered by a stop-loss policy purchased from the plan administrator. Claims exceeding \$1,940,000 are covered by an aggregate stop-loss policy. The College has accrued a liability of \$80,230 and \$67,479 as of June 30, 2009 and 2008, respectively, for claims incurred and reported as well as an estimate of claims incurred but not reported.

Balance July 1	\$	67,479
Claims incurred		148,219
Claims paid		(135,468)
Balance June 30	\$	<u>80,230</u>

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 10. Restatement of Beginning Net Assets**

The June 30, 2008 net assets of the College have been restated to correct an error in accounting for grant funds held by the Foundation on behalf of the College in an agency capacity. During 2008 and in prior years, the College did not report these funds on their balance sheet. This error was the result of a misinterpretation of the contract between the College and the Foundation, the grant agreements, and the related accounting guidance. This error resulted in an understatement of amounts due from the Foundation (an asset) and an understatement of net assets at June 30, 2008. In accordance with accounting standards generally accepted in the United States of America, the 2008 net assets have been restated as follows:

June 30, 2008, as previously stated	\$ 24,711,610
Restatement, correction of an error	<u>2,442,417</u>
June 30, 2008, as restated	<u>\$ 27,154,027</u>

**Note 11. Component Unit**

The following are the significant accounting policies and footnotes related to the component unit which do not conflict with the College.

**Summary of Significant Accounting Policies**

Nature of business: Sauk Valley Community College Foundation (the Foundation) was formed under the General Not-For-Profit Foundation Act of the State of Illinois on November 4, 1965. The Foundation has been approved by the Commissioner of Internal Revenue as an exempt organization under Section 501 of the Internal Revenue Code. Contributions to the Foundation qualify as charitable contributions for federal income tax purposes.

The Foundation was established to assist in developing and augmenting the facilities and carrying out the educational functions of Sauk Valley Community College. The Foundation provides funds by campaign or by other means for scholarships, fellowships, and endowments and for buildings, equipment, and other facilities of the College having educational, artistic, historical, literary, or other cultural value.

In October 2004, the Foundation created Sauk Valley Student Housing LLC. Sauk Valley Student Housing LLC was created to finance, construct and manage a student housing facility for Sauk Valley Community College.

Principles of consolidation: The consolidated financial statements include the financial statements of Sauk Valley Community College Foundation and Sauk Valley Student Housing LLC. The Foundation is the sole member of the LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of presentation: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting.

NOTES TO FINANCIAL STATEMENTS

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**Note 11. Component Unit (Continued)**

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted net assets* – Net assets of the Foundation not subject to donor-imposed stipulations are presently available for use by the Foundation at the discretion of the Board of Directors.

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time. At June 30, 2009, temporarily restricted net assets are primarily available for student scholarships.

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The income earned on these investments is recorded as increases in temporarily restricted net assets as discussed below and is generally available for student scholarships.

Accounting estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses, including functional allocations, during the reporting period. Actual results could differ from those estimates.

Concentration of credit risk: The Foundation has deposits with financial institutions, which at times exceed the federally insured limits. Management does not believe this represents significant risk to the Foundation.

Receivables: Accounts receivable are student accounts receivable carried at the original amount billed for housing, less an estimate made for the doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by identifying troubled accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. Interest is not charged on past due receivables.

Investments: All investments are carried by the Foundation at fair value, except non-brokered certificates of deposit which are carried at cost which approximates market value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 8 for a discussion of fair value measurement.

Property and equipment: Property and equipment are stated at cost or at their estimated fair value at date of donation, if received as a gift. The Foundation depreciates the property and equipment on a straight-line basis over their estimated useful life, ranging from 7-40 years. Amounts expended for maintenance and repair are charged to expense as incurred. Gains or losses on assets sold or retired are included in the statement of revenues, expenses and changes in net assets.

NOTES TO FINANCIAL STATEMENTS

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**Note 11. Component Unit (Continued)**

Impairment of long-lived assets: The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. However, as discussed below, the Foundation has identified conditions which indicate an impairment of long-lived assets, but did not obtain an estimate of fair value in order to measure the impairment, as required by generally accepted accounting principles.

Debt issuance costs: Debt issuance costs are amortized on a straight-line basis, which approximates the effective interest rate method, over the term of the bonds.

Contributions and other revenue: Unconditional promises to give cash or other assets to the Foundation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The Foundation recognizes temporarily restricted donations as unrestricted when the donor's restriction is met within the year the donation is received. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. During the year ended June 30, 2009, net assets released from restrictions were used primarily for student scholarships.

Rent and fee revenue, and interest and dividends are recognized in the period when earned.

Functional allocation of expenses: The cost of providing the programs and supporting services has been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes: The Foundation is a not-for-profit foundation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a)(1) of the Code. The Foundation is classified by the Internal Revenue Service as other than a private foundation. Sauk Valley Student Housing LLC, a consolidated subsidiary of the Foundation, is a limited liability company, and therefore is not subject to federal income taxes as the income is attributed to its sole member.

The Foundation adopted the provisions of FASB Interpretation No. 48 (FIN48), *Accounting for Uncertainty in Income Taxes*, on July 1, 2008. The Foundation files a Form 990 (Return of Organization Exempt from Income Tax) annually. When this return is filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions include such matters as the following: the tax-exempt status of the entity and various positions relative to potential sources of unrelated business taxable income (UBIT). UBIT is reported on Form 990T, as appropriate.

Form 990 filed by the Foundation is subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 filed by the Foundation are no longer subject to examination for the tax years before June 30, 2005.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

NOTES TO FINANCIAL STATEMENTS

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**Note 11. Component Unit (Continued)**

Subsequent events: Management of the Foundation has evaluated subsequent events through April 9, 2010, which is the date the financial statements were issued, for possible measurement and/or disclosures effects on the financial statements.

***Going Concern and Contingency***

For the year ended June 30, 2009, the Foundation has a decrease in net assets of \$698,363 and net cash used in operating activities of \$93,951. As discussed below, the Foundation has determined that the rental occupancy experienced by Sauk Valley Student Housing LLC is not currently sufficient to provide cash flows adequate to meet the cost of operations and debt service.

As discussed below, as of June 30, 2009, the Foundation was in violation of a number of debt covenants for which no waivers have been provided by the bank. These violations are events of default as defined in the debt agreements. Accordingly, the liability for the bonds has been classified as current. As of June 30, 2009, current liabilities exceeded current assets by \$7,243,568. Management has concluded that the residential facilities serving as collateral for the debt may be impaired.

During the fiscal year ended June 30, 2009, the Foundation withdrew funds on deposit with its bank, which violated another debt covenant. On October 23, 2008, the bank indicated in a letter to the Foundation its intent to file a formal notice of default and demanded immediate redeposit of the withdrawn funds. Through the date of subsequent events evaluation, no formal notice of default has been received and the funds have not been redeposited.

Management of the Foundation has given notice to the bank that they are unable to repay the debt due to a lack of unrestricted assets and have no plans to raise funds for such purpose. As discussed below, the bank disagrees with the Foundation's position, citing the Foundation's responsibilities under the Guaranty and Security agreements dated October 22, 2004. If a settlement cannot be reached, litigation is considered likely; however, the outcome is highly uncertain with a range of loss from zero to a complete loss of all assets of the Foundation.

As a result of the matters discussed above, there is substantial doubt about the ability of the Foundation to continue as a going concern. Except for ongoing dialogue with the bank to seek an amicable resolution to the default discussed below, management does not have a formal plan to address the financial issues facing the Foundation.

In March 2010, the Foundation Board of Directors voted to commit no further or future financial resources to the student housing; however, details of how this will be accomplished have not yet been determined.

***Restricted Investments***

The restricted investments at June 30, 2009 consist of the following:

Mutual funds:	
Equity funds	\$ 639,060
Alternative investments	2,017,663
Certificates of deposit	749,841
Money market funds	<u>225,228</u>
Total restricted investments	<u>\$ 3,631,792</u>

NOTES TO FINANCIAL STATEMENTS

**Note 11. Component Unit (Continued)**

For the year ended June 30, 2009, investment income consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 6,922	\$ 44,238	\$ -	\$ 51,160
Realized losses	(6,545)	(70,412)	-	(76,957)
Unrealized losses	(60,609)	(25,067)	-	(85,676)
	<u>\$ (60,232)</u>	<u>\$ (51,241)</u>	<u>\$ -</u>	<u>\$ (111,473)</u>

**Endowment Funds**

The Foundation's endowment consists of approximately 32 individual funds established for a variety of purposes. Its endowments consist of donor-restricted endowment funds to be maintained permanently and term endowments.

On June 30, 2009, the governor of the State of Illinois signed into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA differs from laws previously in place in a few key areas. It eliminates the historic dollar value rule with respect to endowment fund spending, it updates the prudence standard for the management and investment of donor-restricted endowment funds, and it amends the provisions governing the release and modification of restrictions on donor-restricted endowment funds. The passing of UPMIFA was determined to have no impact on the Foundation's classification of net assets or its policy.

The Foundation adopted the disclosure provisions of FASB Staff Position No. FAS 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for all Endowment Funds (FSP FAS 117-1).

**Interpretation of Relevant Law**

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent any explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classified as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those assets have been appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed in UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the Foundation and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Foundation; and
- The investment policies of the Foundation.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

NOTES TO FINANCIAL STATEMENTS

Note 11. Component Unit (Continued)

The Foundation's endowment net asset composition by type of fund is as follows for the year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ (59,656)	\$ 99,140	\$ 1,080,405	\$ 1,119,889

The changes in endowment net assets for the Foundation were as follows for the year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year, as restated	\$ -	\$ 248,674	\$ 1,069,543	\$ 1,318,217
Investment return:				
Investment income	-	39,928	-	39,928
Net depreciation (realized and unrealized)	(59,656)	(98,517)	-	(158,173)
Total investment return	(59,656)	(58,589)	-	(118,245)
Contributions	-	-	10,862	10,862
Appropriation of endowment assets for expenditure	-	(90,945)	-	(90,945)
Endowment net assets, end of year	\$ (59,656)	\$ 99,140	\$ 1,080,405	\$ 1,119,889

*Funds with Deficiencies*

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. The Foundation had 14 individual donor-restricted endowment fund deficiencies in the funds at June 30, 2009 totaling \$59,656. These deficiencies resulted from unfavorable market fluctuations, which occurred during the holding period.

*Return Objectives and Risk Parameters*

The Foundation has adopted investment policies to maximize total return (appreciation and income) and to achieve a specified income level while minimizing credit risk and avoiding excessive market risk. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve the principal and provide liquidity of amounts over the principal while assuming a moderate level of investment risk.

## SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

### NOTES TO FINANCIAL STATEMENTS

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#### Note 11. Component Unit (Continued)

##### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation's policy is that its investments should consist of a high quality portfolio of securities following "the Prudent Man rule." Management believes this strategy will help to achieve the Foundation's long-term return objectives within prudent risk constraints.

##### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Foundation's spending policy is that income from donor-restricted funds will be spent on the intended service, program, or purpose, within a reasonable time period.

##### **Property and Equipment and Asset Impairment**

At June 30, 2009, the Foundation's property and equipment consisted of the following:

Land	\$ 108,000
Buildings and improvements	6,108,113
Furniture and fixtures	192,468
	<hr/>
	6,408,581
Less: accumulated depreciation	682,784
	<hr/>
	<u>\$ 5,725,797</u>

All of the Foundation's property and equipment relates to rental property.

During the course of the Foundation's negotiations with their bank, as more fully discussed in sections above and below, the Foundation determined that the rental occupancy experienced by its subsidiary, Sauk Valley Student Housing LLC, may not be sufficient to provide cash flows adequate to meet the subsidiary's cost of operations and debt service. Further, management believes that the fair market value of the residential facilities may be less than its historical cost net of depreciation. Management identified the potential impairment of the residential facilities and determined that an impairment may exist in accordance with generally accepted accounting principles. However, the Foundation did not provide an objective method of evaluating the fair value of the residential facilities in order to determine the actual amount of impairment of the asset, if any. Accordingly, an impairment loss is not reflected in these financial statements. The net carrying amount of the assets which may be impaired is \$5,725,797 at June 30, 2009.

##### **Notes Payable, Pledged Assets, and Contingencies**

On October 1, 2004, Sauk Valley Student Housing LLC (the LLC) entered into an agreement with the Illinois Finance Authority (IFA). The IFA, on behalf of the LLC, issued \$6,725,000 of tax-exempt variable rate demand revenue bonds and \$395,000 of taxable variable rate demand revenue bonds. The proceeds from the sale of the bonds were loaned to the LLC for the purpose of financing the cost of constructing and equipping an approximately 48 unit, 142 bed on campus housing facility for Sauk Valley Community College students. Bondholders have the option to tender these bonds for purchase on any business day upon seven calendar days notice.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

NOTES TO FINANCIAL STATEMENTS

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Note 11. Component Unit (Continued)

In order to provide credit enhancement and security for repayment, the LLC entered into a letter of credit and reimbursement agreement with Amcore Bank, NA (Amcore). Amcore issued a \$7,225,337 irrevocable letter of credit (direct pay letter of credit) for which \$7,120,000 would support the principal payment of the bonds. The direct pay letter of credit expired on October 22, 2009. On October 1, 2004, the LLC also entered into an irrevocable standby letter of credit agreement (standby letter of credit) with Fifth Third Bank to provide additional security and credit enhancement in the event Amcore was unable to honor its direct pay letter of credit. The standby letter of credit is also in the amount of \$7,225,337 and expired on October 19, 2009.

On October 22, 2004, the Foundation entered into Guaranty and Security agreements with Amcore to secure the direct pay letter of credit. The direct pay letter of credit is secured by a mortgage; pledge agreement; assignments of development agreement, project management agreement, construction contract, and management agreement; environmental indemnity agreement; and security interest in all tangible and intangible assets of the LLC. In addition, per the Guaranty agreement, Amcore acknowledges that certain restricted investments are restricted pursuant to 34 C.F.R. 628, et seq. and that it is taking its security interest in said funds subject to those restrictions. The agreement with Amcore further states that Guarantor is not required to pledge as additional collateral any new federal grants or other government grants that it may receive after the date of this Agreement. The agreement states that without limiting the enforceability of this Agreement or Amcore's rights hereunder, Amcore acknowledges that certain portions of the Foundation's net assets may be subject to conditions and/or restrictions by the original donors.

The letter of credit and reimbursement agreement with Amcore include covenants related to reporting, maintenance of minimum debt service coverage ratio, minimum gross revenues, and other matters. At June 30, 2009, the LLC was in violation of several restrictive covenants for which no waivers have been provided by Amcore. These violations are events of default as defined by the debt agreements; however, no formal notice of default has been filed.

At June 30, 2009, the Foundation's long-term debt consisted of the following:

Note payable to the IFA for tax-exempt bonds requiring monthly interest payments at a variable rate (4.75% at June 30, 2009), maturing October 1, 2034	\$ 6,725,000
Note payable to the IFA for taxable bonds requiring monthly interest payments at a variable rate (4.75% at June 30, 2009), maturing October 1, 2018	<u>395,000</u>
	<u>\$ 7,120,000</u>

Both notes presently bear interest at a rate determined weekly and reset by a remarketing agent. The interest rate for either note may be changed, under certain circumstances, to a fixed rate until maturity at which time interest will be payable on April 1 and October 1 of each year. Periodically throughout the year, the Foundation did not make the required payments of interest due on the outstanding bonds. The interest was paid to the bondholders by Amcore, as guarantor under the letters of credit. As a result, approximately \$180,000 is recorded as accrued interest and penalties at June 30, 2009 relating to the bonds.

NOTES TO FINANCIAL STATEMENTS

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**Note 11. Component Unit (Continued)**

***Bonds Tendered and Secured Letter of Credit Exercised***

On October 3, 2008, the entire balance of the \$395,000 taxable variable rate demand revenue bonds was tendered for payment by the bondholders. On October 6, 2008, the entire balance of the \$6,725,000 tax-exempt variable rate demand revenue bonds was tendered for payment by the bondholders. In accordance with the reimbursement agreement, the irrevocable direct pay letter of credit provided by Amcore, and secured by the unrestricted assets of the Foundation, was executed to fund the payment of the outstanding principal and interest of the tendered bonds. This type of funding under the reimbursement agreement is referred to as an "Unpaid Remarketing Drawing". An unpaid remarketing drawing is to be reimbursed to Amcore not later than the earliest to occur of the following: the expiration date of the letter of credit, which was October 22, 2009; the date the pledged bonds securing such unpaid remarketing drawing are redeemed pursuant to the bond indenture; the date the interest rate is converted to a fixed rate pursuant to Section 204 of the trust indenture; 180 days after Amcore advanced the amount of the unpaid remarketing drawing; or the date on which the tendered bonds purchased with the unpaid remarketing drawing are successfully remarketed. These bonds were subsequently remarketed in November and December 2008.

***Notification of Inability to Service Debt***

On October 20, 2008, the Foundation communicated to Amcore that the projected net income for Sauk Valley Student Housing LLC for the fiscal year ending June 30, 2009 would be insufficient to service the debt, and indicated that the prospective supplemental contributions from the Foundation would be nominal. Following this communication, a dispute arose between the Foundation and Amcore Bank regarding the utilization and availability of the assets pledged as security under the Guaranty agreement between the Foundation and Amcore. Provisions of the Security agreement are outlined above.

As of the date of the auditor's report, the Foundation contends that it has exhausted all its unrestricted funds available to service its contingent obligations to support Sauk Valley Student Housing LLC. The Foundation's management deems the grant monies held on behalf of the College and donor-restricted monies unavailable to be utilized to pay the obligations of Sauk Valley Student Housing LLC due to the restrictions contained in donor's gift documents and the fact the monies held on behalf of the College are not Foundation assets. Amcore disputes the Foundation's position.

***Security Agreement Covenant Default***

During the year ended June 30, 2009, the Foundation withdrew substantial monies from bank accounts held at Amcore. In accordance with the covenants contained within the Security agreement between the Foundation and Amcore, these monies were to be maintained at Amcore. Management has represented that these withdrawals were directed to address concerns regarding the safety of maintaining deposits in excess of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). Amcore considers this action an event of default. Amcore has sent the Foundation a letter demanding immediate redeposit of the withdrawn funds. The bank believes this is an event of default.

***Bonds Tendered Subsequent to Year-End***

On October 1, 2009, the entire balance of the bonds was tendered again for payment by the bond holders and the letter of credit was drawn upon. The letter of credit provided by Amcore then expired on October 22, 2009 and was not renewed. The bonds were not able to be remarketed. In accordance with the provisions of the letter of credit, payment was due to the bank at the time the letter of credit expired, however, the Foundation has not made any payments..

NOTES TO FINANCIAL STATEMENTS

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Note 11. Component Unit (Continued)

***Fair Value Disclosure***

Effective July 1, 2008, the Foundation adopted FASB Statement No. 157, *Fair Value Measurements* (SFAS 157), which provides a framework for measuring fair value under generally accepted accounting principles. SFAS 157 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

***Investment Securities***

The fair value of investment securities is the market value based on quoted prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

The Foundation invests in certain alternative investments. The fair value of these investments is determined based on the fair value of the underlying investments held by the fund.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to SFAS 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506**

**NOTES TO FINANCIAL STATEMENTS**

**Note 11. Component Unit (Continued)**

Fair Value on a Recurring Basis

The table below presents the balances of assets measured at fair value on a recurring basis as of June 30, 2009.

	Total	Level 1	Level 2	Level 3
Restricted investments:				
Brokered certificates of deposit	\$ 269,263	\$ -	\$ 269,263	\$ -
Money market funds	225,228	-	225,228	-
Equity mutual funds:				
Large-cap	313,567	313,567	-	-
Mid-cap	66,228	66,228	-	-
Small-cap	42,363	42,363	-	-
Fixed income mutual funds:				
Debt securities issued by U.S. Treasury and other U.S. government corporations and agencies	85,958	85,958	-	-
Corporate debt securities	105,374	105,374	-	-
Commercial mortgage backed securities	25,570	25,570	-	-
Alternative investments	2,017,663	-	-	2,017,663
	<u>\$ 3,151,214</u>	<u>\$ 639,060</u>	<u>\$ 494,491</u>	<u>\$ 2,017,663</u>

The changes in investments included in Level 3 assets and liabilities measured at fair value on a recurring basis during the year ended June 30, 2009 are summarized as follows:

Balance, July 1, 2008	\$ 2,442,417
Total net losses included in changes in net assets	(449,484)
Purchases, sales, issuances and settlements, net	24,730
Balance, June 30, 2009	<u>\$ 2,017,663</u>

Total net losses in change in net assets relate to assets still held at June 30, 2009 and are included in investment income (loss) on the consolidated statement of activities.

Restricted investments also included non-brokered certificates of deposit of \$480,578 at June 30, 2009.

The following methods and assumptions were used by the Foundation to estimate the fair value of other financial instruments not discussed above:

The carrying values of cash, accounts receivable, other assets, and accounts payable and accrued expenses are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

## NOTES TO FINANCIAL STATEMENTS

**Note 11. Component Unit (Continued)**

The fair value of the bonds payable is based on the quoted market prices for the same issue if available, or similar issues, using discounted cash flow analyses based on the current rates offered to the Foundation for debt of the same remaining maturity with similar collateral requirements. The Foundation incorporates credit valuation adjustments to appropriately reflect its own nonperformance risk in the fair value measures. Because nonperformance on the debt has been experienced in 2009 and is expected in the near future, determination of fair value is not practicable, however the fair value is expected to be significantly below carrying value.

**Restatement of Beginning Net Assets**

The 2008 Foundation financial statements have been restated to correct for an error in accounting for grant funds held by the Foundation on behalf of the College in an agency capacity. During 2008 and in prior years, the Foundation improperly reported these funds in the Foundation's temporarily and permanently restricted net assets. This error was the result of a misinterpretation of the contract agreement between the Foundation and the College, the grant agreement, and the related accounting guidance. This error resulted in an understatement of accounts due to the College (a liability) and an overstatement of net assets at June 30, 2008. In accordance with accounting standards generally accepted in the United States of America, the 2008 net assets have been restated as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
June 30, 2008 balance as previously stated	\$ (571,845)	\$ 3,205,704	\$ 1,116,023	\$ 3,749,882
Restatement, correction of an error	-	(2,395,937)	(46,480)	(2,442,417)
June 30, 2008 balance as restated	\$ (571,845)	\$ 809,767	\$ 1,069,543	\$ 1,307,465

**Note 12. Related Party Transactions**

Sauk Valley Community College provides office space and support services for the Foundation. The value of such in-kind benefits to the Foundation was approximately \$69,000 for the year ended June 30, 2009 and is recognized as both a revenue and expense in the consolidated statement of activities.

During the year ended June 30, 2009, the College made contributions to the Foundation of approximately \$30,400.

**Note 13. Pending Pronouncements**

The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which will be effective for the College beginning with its year ending June 30, 2010. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

NOTES TO FINANCIAL STATEMENTS

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**Note 13. Pending Pronouncements (Continued)**

The GASB has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which will be effective for the College beginning with its year ending June 30, 2011. The objective of this Statement is to provide clearer fund balance classifications that can be more consistently applied and to clarify the existing governmental fund type definition, thereby enhancing the usefulness of fund balance information.

The College has not yet determined what effect, if any, these statements will have on the financial statements.

**SUPPLEMENTARY INFORMATION**

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

ALL FUND TYPES AND ACCOUNT GROUPS  
COMBINED BALANCE SHEET  
June 30, 2009

	Educational Fund	Operations and Maintenance Fund	Restricted Purposes Fund	Audit Fund	Liability, Protection, and Settlement Fund	Bond and Interest Fund	Operations and Maintenance Fund (Restricted)
<b>ASSETS</b>							
Cash	\$ 2,067	\$ 38,574	\$ 881	\$ 38,886	\$ 171,063	\$ 25,042	\$ 445,801
Investments	1,547,691	22,121	-	-	-	500,000	5,000,000
Restricted cash and investments	-	-	-	-	6,270,764	-	-
Accounts receivable:							
Taxes	2,492,299	305,221	-	30,635	247,343	937,923	502,598
Student tuition	72,821	-	-	-	-	-	-
Other receivables	100,907	846	2,017,663	-	-	-	-
Accrued revenue	1,311,963	170,769	232,830	219	2,197	670	9,896
Due from other funds	37,000	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Deferred expenses	93,824	34	34,442	-	18,572	-	702
Capital assets	-	-	-	-	-	-	-
Less accumulated depreciation	-	-	-	-	-	-	-
Amount available in Debt Service for retirement of general long-term debt	-	-	-	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 5,658,572</b>	<b>\$ 537,565</b>	<b>\$ 2,285,818</b>	<b>\$ 69,740</b>	<b>\$ 6,709,939</b>	<b>\$ 1,463,635</b>	<b>\$ 5,958,997</b>
<b>LIABILITIES AND FUND EQUITY</b>							
Accounts payable	\$ 104,140	\$ 39,743	\$ 29,835	\$ -	\$ 9,191	\$ -	\$ 204,934
Accrued expenses	458,507	37,919	22,224	-	5,937	41,548	24,909
Deferred revenue	1,990,658	455,922	-	22,075	178,807	679,907	363,500
Due to other funds	1,355,000	-	37,000	-	-	-	-
Due to student organizations	-	-	-	-	-	-	-
Obligations under capital lease agreement	-	-	-	-	-	-	-
General obligation bonds payable	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>3,908,305</b>	<b>533,584</b>	<b>89,059</b>	<b>22,075</b>	<b>193,935</b>	<b>721,455</b>	<b>593,343</b>
Fund Equity:							
Investment in General Capital Assets	-	-	-	-	-	-	-
Retained earnings - unreserved	-	-	-	-	-	-	-
Fund balances:							
Reserved	-	-	2,196,757	47,665	6,516,004	742,180	5,365,854
Unreserved	1,750,267	3,981	-	-	-	-	-
<b>Total fund equity</b>	<b>1,750,267</b>	<b>3,981</b>	<b>2,196,757</b>	<b>47,665</b>	<b>6,516,004</b>	<b>742,180</b>	<b>5,365,654</b>
<b>Total liabilities and fund equity</b>	<b>\$ 5,658,572</b>	<b>\$ 537,565</b>	<b>\$ 2,265,616</b>	<b>\$ 69,740</b>	<b>\$ 6,709,939</b>	<b>\$ 1,463,635</b>	<b>\$ 5,958,997</b>

Auxiliary Enterprise Fund	Working Cash Fund	Trust and Agency Funds	General Fixed Assets	Long-Term Debt	Eliminations	Total (Memorandum Only)
\$ 536,571	\$ 102,717	\$ 32,240	\$ -	\$ -	\$ -	1,393,842
-	500,000	-	-	-	-	7,569,812
-	-	-	-	-	-	6,270,764
-	-	-	-	-	-	4,516,019
-	-	-	-	-	-	72,621
257	-	-	-	-	-	2,119,673
3,303	13,067	-	-	-	-	1,744,914
-	1,355,000	-	-	-	(1,392,000)	-
2,559	-	-	-	-	-	2,559
31,734	-	-	-	-	(71,839)	107,469
-	-	-	23,222,388	-	-	23,222,388
-	-	-	(10,775,356)	-	-	(10,775,356)
-	-	-	-	742,160	(742,180)	-
-	-	-	(4,873)	1,852,893	(1,847,820)	-
<u>\$ 574,424</u>	<u>\$ 1,970,784</u>	<u>\$ 32,240</u>	<u>\$ 12,442,157</u>	<u>\$ 2,594,873</u>	<u>\$ (4,053,839)</u>	<u>\$ 36,244,903</u>
\$ 82,638	\$ -	\$ -	\$ -	\$ -	\$ -	470,481
3,396	-	-	-	-	-	594,440
118,482	-	-	-	-	(71,839)	3,737,492
-	-	-	-	-	(1,392,000)	-
-	-	32,240	-	-	-	32,240
-	-	-	-	4,673	-	4,673
-	-	-	-	2,590,000	-	2,590,000
<u>204,496</u>	<u>-</u>	<u>32,240</u>	<u>-</u>	<u>2,594,873</u>	<u>(1,463,839)</u>	<u>7,429,526</u>
-	-	-	12,442,157	-	(2,590,000)	9,852,157
389,926	-	-	-	-	-	369,926
-	1,970,784	-	-	-	-	16,839,044
-	-	-	-	-	-	1,754,248
<u>389,926</u>	<u>1,970,784</u>	<u>-</u>	<u>12,442,157</u>	<u>-</u>	<u>(2,590,000)</u>	<u>28,815,377</u>
<u>\$ 574,424</u>	<u>\$ 1,970,784</u>	<u>\$ 32,240</u>	<u>\$ 12,442,157</u>	<u>\$ 2,594,873</u>	<u>\$ (4,053,839)</u>	<u>\$ 36,244,903</u>

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

ALL FUND TYPES  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 Year Ended June 30, 2009

	Educational Fund	Operations and Maintenance Fund	Restricted Purposes Fund	Audit Fund	Liability, Protection and Settlement Fund
Revenues:					
Local tax revenue	\$ 3,530,102	\$ 432,140	\$ -	\$ 38,433	\$ 355,933
ICCB grants	2,552,094	336,462	232,548	-	-
All other state revenue	412,297	50,958	915,852	-	-
Federal revenue	4,975	-	4,480,654	-	-
Student tuition and fees	4,095,079	443,704	-	-	-
All other revenue	374,703	24,003	(80,002)	779	318,079
Revenues for on behalf payments- State portion of SURS payments	791,049	68,213	-	-	18,093
<b>Total revenue</b>	<b>11,760,299</b>	<b>1,355,480</b>	<b>5,549,052</b>	<b>39,212</b>	<b>692,105</b>
Expenditures:					
Instruction	4,372,741	-	417,608	-	-
Academic support	1,133,419	-	146,297	-	-
Student services	1,099,291	-	348,694	-	-
Public services	470,828	-	571,983	-	-
Independent operations	-	-	-	-	2,379
Operations and maintenance	(131)	1,649,374	-	-	186,598
Institutional support	2,308,122	-	39,695	42,716	352,949
Scholarships, student grants, and waivers	738,269	-	4,373,528	-	-
Depreciation	-	-	-	-	-
State portion of SURS payments	791,049	68,213	-	-	18,093
<b>Total expenditures</b>	<b>10,913,588</b>	<b>1,717,587</b>	<b>5,897,805</b>	<b>42,716</b>	<b>560,019</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>846,711</b>	<b>(362,107)</b>	<b>(348,753)</b>	<b>(3,504)</b>	<b>132,086</b>
Other financing sources (uses):					
Operating transfers in	-	357,945	-	-	-
Operating transfers (out)	(382,000)	-	(3,367,246)	-	-
<b>Excess (deficiency) of revenues over expenditures and other financing sources (uses)</b>	<b>464,711</b>	<b>(4,162)</b>	<b>(3,715,999)</b>	<b>(3,504)</b>	<b>132,086</b>
Fund balances, beginning of year, as restated	1,285,556	8,143	5,912,756	51,169	6,383,918
Fund balance, June 30, 2009	\$ 1,750,267	\$ 3,981	\$ 2,196,757	\$ 47,665	\$ 6,516,004

Operating expenditures:

Bond and Interest Fund	Operations and Maintenance Fund (Restricted)	Auxiliary Enterprises Fund	Working Cash Fund	General Fixed Assets	Eliminations	Total (Memorandum Only)
\$ 1,317,612	\$ 689,225	\$ -	\$ -	\$ -	\$ -	6,363,445
-	-	-	-	-	-	3,121,104
-	-	-	-	-	-	1,379,107
-	-	-	-	-	-	4,485,629
-	-	151,379	-	-	(2,430,435)	2,259,727
3,425	275,006	2,073,426	47,945	-	(1,944,141)	1,093,223
-	-	16,318	-	-	-	893,673
1,321,037	964,231	2,241,123	47,945	-	(4,374,576)	19,595,908
-	150,988	-	-	(95,993)	-	4,845,344
-	54,437	-	-	(12,200)	-	1,321,953
-	8,328	-	-	-	-	1,456,313
-	-	-	-	-	-	1,042,811
-	3,473	2,101,840	-	(2,800)	(1,932,109)	172,783
-	86,364	-	-	24,358	-	1,946,563
1,240,062	960,466	-	-	(1,080,746)	(1,115,000)	2,748,264
-	-	-	-	-	(2,442,467)	2,669,330
-	-	-	-	837,524	-	837,524
-	-	16,318	-	-	-	893,673
1,240,062	1,264,056	2,118,158	-	(329,857)	(5,489,576)	17,934,558
80,975	(299,825)	122,965	47,945	329,857	1,115,000	1,661,350
-	3,367,246	182,000	-	-	-	3,907,191
-	-	(110,000)	(47,945)	-	-	(3,907,191)
80,975	3,067,421	194,965	-	329,857	1,115,000	1,661,350
661,205	2,298,233	174,963	1,970,784	12,112,300	(3,705,000)	27,154,027
\$ 742,180	\$ 5,365,654	\$ 369,928	\$ 1,970,784	\$ 12,442,157	\$ (2,590,000)	\$ 28,815,377

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506**

**SCHEDULE OF ASSESSED VALUATIONS, TAX RATES  
AND TAX EXTENSIONS**

**Levy Years 2008, 2007 and 2006**

The following are the Assessed Valuations, Tax Rates and Tax Extensions for the preceding three levy years:

	2008	2007	2006
<b>Assessed Valuations:</b>			
Whiteside County	\$ 684,810,994	\$ 664,148,258	\$ 636,180,444
Lee County	534,471,066	505,044,222	471,880,115
Ogle County	114,278,124	108,313,278	101,047,714
Henry County	2,145,344	1,932,773	1,913,254
Bureau County	66,037,972	61,910,106	59,249,650
Carroll County	69,950,330	69,136,745	65,952,572
	<u>\$ 1,471,693,830</u>	<u>\$ 1,410,485,382</u>	<u>\$ 1,336,223,749</u>
<b>Tax Rates:</b>			
Educational Fund	0.2450	0.2450	0.2450
Operations and Maintenance Fund	0.0300	0.0300	0.0300
Operations and Maintenance Fund-Restricted	0.0494	0.0463	0.0487
Bond and Interest Fund	0.0924	0.0901	0.0962
Liability, Protection, and Settlement Fund	0.0243	0.0252	0.0367
Audit Fund	0.0030	0.0024	0.0021
	<u>0.4441</u>	<u>0.4390</u>	<u>0.4587</u>
<b>Tax Extensions:</b>			
Educational Fund	\$ 3,605,650	\$ 3,455,689	\$ 3,273,748
Operations and Maintenance Fund	441,508	423,146	400,867
Operations and Maintenance Fund-Restricted	727,017	652,522	650,741
Bond and Interest Fund	1,359,845	1,270,847	1,285,447
Liability, Protection, and Settlement Fund	357,622	355,429	490,394
Audit Fund	44,151	33,203	28,061
	<u>\$ 6,535,792</u>	<u>\$ 6,190,836</u>	<u>\$ 6,129,258</u>

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506**

**SCHEDULE OF ASSESSED VALUES, TAX RATES, EXTENSIONS,  
COLLECTIONS AND LEGAL DEBT MARGIN**

**June 30, 2009**

	2008	2007
ASSESSED VALUATION	\$ 1,471,693,830	\$ 1,410,485,382
COMBINED RATE	0.4441	0.4390
TAXES EXTENDED	\$ 6,535,792	\$ 6,190,836
TOTAL COLLECTED TO JUNE 30, 2009	\$ 2,019,773	\$ 6,190,836
PERCENT COLLECTED TO JUNE 30, 2009	30.90%	100.00%
UNCOLLECTED AT JUNE 30, 2009	\$ 4,516,019	\$ (0)

	2008 TAXES EXTENDED		
	Uncollected June 30, 2009	Allowance for Uncollectible Taxes	Balance After Allowance
Educational	\$ 2,492,299	\$ -	\$ 2,492,299
Operations and Maintenance	305,221	-	305,221
Operations and Maintenance - restricted	502,598	-	502,598
Bond and Interest	937,923	-	937,923
Liability, Protection, And Settlement	247,343	-	247,343
Audit	30,635	-	30,635
<b>Total</b>	<b>\$ 4,516,019</b>	<b>\$ -</b>	<b>\$ 4,516,019</b>

The following is a schedule of the legal debt margin of the College as of June 30, 2009:

Assessed valuation - 2008 levy	\$ 1,471,693,830
Debt limit - 2.875% of assessed valuation	\$ 42,311,198
Less indebtedness	2,594,873
<b>Legal debt margin, June 30, 2009</b>	<b>\$ 39,716,325</b>

**SPECIAL REPORTS SECTION**

**UNIFORM FINANCIAL STATEMENTS**

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

ALL FUNDS SUMMARY  
 UNIFORM FINANCIAL STATEMENT #1  
 Year Ended June 30, 2009

	Educational Fund	Operations and Maintenance Fund	Operations and Maintenance Fund (Restricted)	Bond and Interest Fund	Auxiliary Enterprises Fund	Restricted Purposes Fund	Working Cash Fund	Audit Fund	Liability, Protection and Settlement Fund	Total
Fund balance, July 1, 2008, as restated	\$ 1,285,556	\$ 8,143	\$ 2,298,233	\$ 661,205	\$ 174,963	\$ 5,912,756	\$ 1,970,784	\$ 51,169	\$ 6,383,918	\$ 18,746,727
Revenues:										
Local tax revenue	3,530,102	432,140	689,225	1,317,612	-	-	-	38,433	355,933	6,363,445
ICCB grants	2,552,094	336,462	-	-	-	232,548	-	-	-	3,121,104
All other state revenue	412,297	50,958	-	-	-	915,852	-	-	-	1,379,107
Federal revenue	4,975	-	-	-	-	4,480,654	-	-	-	4,485,629
Student tuition and fees	4,095,079	443,704	-	-	151,379	-	-	-	-	4,690,162
All other revenue	374,703	24,003	275,006	3,425	2,073,426	(80,002)	47,945	779	318,079	3,037,364
Revenues for on behalf payments- State portion of SURS payments	791,049	68,213	-	-	16,318	-	-	-	18,093	893,673
<b>Total revenue</b>	<b>11,760,299</b>	<b>1,355,480</b>	<b>964,231</b>	<b>1,321,037</b>	<b>2,241,123</b>	<b>5,549,052</b>	<b>47,945</b>	<b>39,212</b>	<b>692,105</b>	<b>23,970,484</b>
Expenditures:										
Instruction	4,372,741	-	150,988	-	-	417,608	-	-	-	4,941,337
Academic support	1,133,419	-	54,437	-	-	146,297	-	-	-	1,334,153
Student services	1,099,291	-	8,328	-	-	348,694	-	-	-	1,456,313
Public services	470,828	-	-	-	-	571,983	-	-	-	1,042,811
Independent operations	-	-	3,473	-	2,101,840	-	-	-	2,379	2,107,692
Operations and maintenance	(131)	1,649,374	86,364	-	-	-	-	-	186,598	1,922,205
Institutional support	2,308,122	-	960,466	1,240,062	-	39,695	-	42,716	352,949	4,944,010
Scholarships, student grants, and waivers	738,269	-	-	-	-	4,373,528	-	-	-	5,111,797
Expenditures for on behalf payments- State portion of SURS payments	791,049	68,213	-	-	16,318	-	-	-	18,093	893,673
<b>Total expenditures</b>	<b>10,913,588</b>	<b>1,717,587</b>	<b>1,264,056</b>	<b>1,240,062</b>	<b>2,118,158</b>	<b>5,897,805</b>	<b>-</b>	<b>42,716</b>	<b>560,019</b>	<b>23,753,991</b>
Net transfers	(382,000)	357,945	3,367,246	-	72,000	(3,367,246)	(47,945)	-	-	-
Fund balance, June 30, 2009	\$ 1,750,267	\$ 3,981	\$ 5,365,654	\$ 742,180	\$ 369,928	\$ 2,196,757	\$ 1,970,784	\$ 47,665	\$ 6,516,004	\$ 18,963,220

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

SUMMARY OF FIXED ASSETS AND DEBT  
 UNIFORM FINANCIAL STATEMENT #2  
 Year Ended June 30, 2009

	Fixed Asset/Debt Account Groups July 1, 2008	Additions	Deletions	Fixed Asset/Debt Account Groups June 30, 2009
Fixed assets:				
Sites and improvements	\$ 1,655,325	\$ -	\$ -	\$ 1,655,325
Buildings, additions and improvements	14,448,130	654,239	-	15,102,369
Equipment	6,158,010	243,105	192,651	6,208,464
Construction in process	-	256,228	-	256,228
	22,261,465	1,153,572	192,651	23,222,386
Accumulated depreciation	(10,130,483)	(837,524)	(192,651)	(10,775,356)
<b>Net fixed assets</b>	<b>\$ 12,130,982</b>	<b>\$ 316,048</b>	<b>\$ -</b>	<b>\$ 12,447,030</b>
Debt:				
Bonds payable	\$ 3,705,000	\$ -	\$ 1,115,000	\$ 2,590,000
Other fixed liabilities	18,682	-	13,809	4,873
<b>Total debt</b>	<b>\$ 3,723,682</b>	<b>\$ -</b>	<b>\$ 1,128,809</b>	<b>\$ 2,594,873</b>

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

OPERATING FUNDS REVENUES AND EXPENDITURES  
 UNIFORM FINANCIAL STATEMENT #3  
 Year Ended June 30, 2009

	Educational Fund	Operations and Maintenance Fund	Total Operating Funds
<b>Operating Revenues by Source:</b>			
<b>Local Government:</b>			
Property taxes	\$ 3,530,102	\$ 432,140	\$ 3,962,242
Chargeback revenue	-	-	-
<b>Total local government</b>	<b>3,530,102</b>	<b>432,140</b>	<b>3,962,242</b>
<b>State Government:</b>			
ICCB credit hour grants	2,017,663		
ICCB equalization grants	1,364,607	168,659	1,533,266
ICCB - career and technical education	1,051,901	130,010	1,181,911
ICCB - career and technical education	82,186	-	82,186
Corporate personal property replacement taxes	412,297	50,958	463,255
ICCB - other	53,400	37,793	91,193
<b>Total state government</b>	<b>2,964,391</b>	<b>387,420</b>	<b>3,351,811</b>
<b>Federal Government -</b>			
Department of Education	4,975	-	4,975
<b>Total federal government</b>	<b>4,975</b>	<b>-</b>	<b>4,975</b>
<b>Student Tuition and Fees:</b>			
Tuition	3,647,017	443,704	4,090,721
Fees	448,062	-	448,062
<b>Total tuition and fees</b>	<b>4,095,079</b>	<b>443,704</b>	<b>4,538,783</b>
<b>Other Sources:</b>			
Sales and service fees	248,566	16,757	265,323
Facilities revenue	-	6,663	6,663
Investments revenue	73,908	406	74,314
Other - miscellaneous	52,229	177	52,406
Revenue for on behalf payments-			
State portion of SURS payments	791,049	68,213	859,262
<b>Total other revenue</b>	<b>1,165,752</b>	<b>92,216</b>	<b>1,257,968</b>
<b>Total revenue</b>	<b>11,760,299</b>	<b>1,355,480</b>	<b>13,115,779</b>
<b>Less: Non-operating items* -</b>			
Tuition chargeback revenue	-	-	-
<b>Adjusted revenue</b>	<b>\$ 11,760,299</b>	<b>\$ 1,355,480</b>	<b>\$ 13,115,779</b>

\*Intercollege revenues that do not generate related local college credit hours are subtracted to allow for statewide comparisons.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

RESTRICTED PURPOSES FUNDS REVENUE AND EXPENDITURES  
 UNIFORM FINANCIAL STATEMENT #4  
 Year Ended June 30, 2009

	Restricted Purposes Fund
<hr/>	
Revenue by sources:	
State Government:	
ICCB - Workforce Preparations Grants	\$ 53,416
ICCB - P-16 Initiative Grant	-
ICCB - Vocational Education	10,849
ICCB - Adult Education	168,283
ISAC - Monetary Award Grants	71,126
Illinois Veterans' Grants	695,385
Other	<u>149,341</u>
<b>Total state government</b>	<u>1,148,400</u>
Federal Government:	
Department of Education	4,060,230
Other	<u>420,424</u>
<b>Total federal government</b>	<u>4,480,654</u>
Other sources (uses):	
Investment losses	<u>(80,002)</u>
<b>Total restricted purposes fund revenue</b>	<u><u>5,549,052</u></u>
Restricted Purpose Fund Expenditures:	
By Program:	
Instruction	417,608
Academic support	146,297
Student services	348,694
Public services	571,983
Institutional support	39,695
Scholarships, student grants, and waivers	<u>4,373,528</u>
<b>Total restricted purposes fund expenditures</b>	<u><u>\$ 5,897,805</u></u>

(continued)

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

RESTRICTED PURPOSES FUNDS REVENUE AND EXPENDITURES

UNIFORM FINANCIAL STATEMENT #4 (CONTINUED)

Year Ended June 30, 2009

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Expenditures By Object:

Salaries	\$ 1,084,903
Employee benefits	120,774
Contractual services	164,031
General materials and supplies	112,338
Travel and conference expense	80,912
Capital outlay	38,527
Scholarships, student grants and waivers	4,225,896
Other	70,424
<b>Total restricted purposes fund expenditures</b>	<b><u>\$ 5,897,805</u></b>

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

CURRENT FUNDS\* EXPENDITURES BY ACTIVITY  
 UNIFORM FINANCIAL STATEMENT #5  
 Year Ended June 30, 2009

<hr/>	
Instruction:	
Instructional programs	\$ 4,708,536
Other	81,813
	<hr/>
<b>Total instruction</b>	<b>4,790,349</b>
Academic support:	
Library	222,833
Instructional materials center	-
Academic computing support	393,035
Academic administration and planning	427,405
Other	236,443
	<hr/>
<b>Total academic support</b>	<b>1,279,716</b>
Student services:	
Admissions and records	188,853
Counseling and career guidance	652,677
Financial aid administration	200,422
Other	406,033
	<hr/>
<b>Total student services support</b>	<b>1,447,985</b>
Public services/continuing education:	
Community education	470,828
Community services	372,664
Other	199,319
	<hr/>
<b>Total public services/continuing education</b>	<b>1,042,811</b>
Auxiliary services	<hr/>
	2,104,219
Operations and maintenance of plant:	
Maintenance	314,736
Custodial services	353,775
Grounds	123,421
Campus security	186,598
Utilities	697,067
Administration	159,825
Other	419
	<hr/>
<b>Total operations and maintenance of plant</b>	<b>\$ 1,835,841</b>

(continued)

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

CURRENT FUNDS\* EXPENDITURES BY ACTIVITY  
UNIFORM FINANCIAL STATEMENT #5 (CONTINUED)  
Year Ended June 30, 2009

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Institutional support:	
Executive management	\$ 463,074
Fiscal operations	385,064
Community relations	338,713
Administrative support services	171,873
Board of trustees	54,115
General institution	596,446
Institutional research	153,307
Administrative data processing	580,890
	<hr/>
<b>Total institutional support</b>	<b>2,743,482</b>
	<hr/>
Scholarships, student grants, and waivers	5,111,797
	<hr/>
Expenditures for on behalf payments -	
State portion of SURS payments	893,673
	<hr/>
<b>Total current funds expenditures</b>	<b>\$ 21,249,873</b>
	<hr/>

\* Current funds include the Education; Operations and Maintenance; Auxiliary Enterprises; Restricted Purposes; Audit; Liability, Protection, and Settlement funds.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

CERTIFICATE OF CHARGEBACK REIMBURSEMENT  
FOR FISCAL YEAR 2010

All fiscal year 2009 noncapital audited operating expenditures  
for the past fiscal year from the following funds:

1	Educational Fund	\$	10,071,951
2	Operations and Maintenance Fund	\$	1,640,498
3	Public Building Commission Operations and Maintenance Fund	\$	-
4	Bond and Interest Fund	\$	1,240,062
5	Public Building Commission Rental Fund	\$	-
6	Restricted Purposes Fund	\$	5,859,280
7	Audit Fund	\$	42,716
8	Liability, Protection, and Settlement Fund	\$	541,926
9	Auxiliary Enterprises Fund (subsidy only)	\$	-
10	<b>Total noncapital expenditures (sum of lines 1 - 9)</b>	\$	<b>19,396,433</b>
11	Depreciation on capital outlay expenditures from sources other than state and federal funds	\$	730,282
12	<b>Total costs included (line 10 plus line 11)</b>	\$	<b>20,126,715</b>
13	Total certified semester credit hours for FY 2009		49,770
14	<b>Per capita cost (line 12 divided by line 13)</b>	\$	<b>404.39</b>
15	All FY 2009 state and federal operating grants for noncapital expenditures, except ICCB grants	\$	6,188,213
16	FY 2009 state and federal grants per semester credit hour (line 15 divided by line 13)	\$	124.34
17	District's average ICCB grant rate for FY 2009	\$	34.31
18	District's student tuition and fee rate per semester credit hour for FY 2009	\$	89.00
19	<b>Chargeback reimbursement per semester credit hour (line 14 less lines 16, 17 and 18)</b>	\$	<b>156.75</b>

Approved: Paula J. Flynn 4/30/10  
Chief Fiscal Officer Date

Approved: George M. Mink 4-30-10  
Chief Executive Officer Date

**ICCB STATE GRANT FINANCIAL – COMPLIANCE SECTION**

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report on Compliance with State Requirements for Workforce Development Grant, Adult Education and Family Literacy Grants, and Career and Technical Education-Program Improvement Grants

Board of Trustees  
Sauk Valley Community College District 506  
Dixon, Illinois

We have audited the accompanying financial statements of the Workforce Development Grant, State Adult Education and Family Literacy Grants, and Career and Technical Education-Program Improvement Grants of Sauk Valley Community College District 506 (College) as of and for the year ended June 30, 2009 as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the grant policy guidelines of the Illinois Community College Board's *Fiscal Management Manual*. Those standards and guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinion.

The financial statements presented are only for the grant programs referred to above and are not intended to present the financial position or results of operations of Sauk Valley Community College District 506.

In our opinion, such financial statements referred to above present fairly, in all material respects, the financial position of the Workforce Development Grant, State Adult Education and Family Literacy Grants, and Career and Technical Education-Program Improvement Grants of the College at June 30, 2009, and the results of their operations for the year then ended in conformity with auditing standards generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the grant programs' financial statements taken as a whole for each of the grant programs referred to in the first paragraph. The supplementary information included on the ICCB compliance statement for the Workforce Development Grant and the ICCB compliance statement for the State Adult Education and Family Literacy Grants is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Workforce Development Grant and the State Adult Education and Family Literacy Grants. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

We have also issued a report dated April 30, 2010, on our consideration of the grant programs' compliance with certain provisions of laws, regulations and grant policy guidelines of the Illinois Community College Board's *Fiscal Management Manual*.

*McGladrey & Pullen, LLP*

Rockford, Illinois  
April 30, 2010

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

WORKFORCE DEVELOPMENT (BUSINESS/INDUSTRY) GRANT PROGRAM  
BALANCE SHEET

June 30, 2009

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**ASSETS**

Cash	\$	-
		<hr/>
Total assets	\$	-
		<hr/> <hr/>

**LIABILITIES AND FUND BALANCE**

Liabilities	\$	-
Fund balance		-
		<hr/>
Total liabilities and fund balance	\$	-
		<hr/> <hr/>

See Notes to Financial Statements - Grant Programs.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

WORKFORCE DEVELOPMENT (BUSINESS/INDUSTRY) GRANT PROGRAM  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2009

---

	<u>Actual</u>
<b>Revenues*</b>	
State sources	<u>\$ 53,416</u>
<b>Expenditures</b>	
Current year's grant:	
salaries	<u>53,416</u>
<b>Total expenditures</b>	<u>53,416</u>
Excess of revenues over expenditures	-
Fund balance, beginning of year	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>

\*ICCB grant funds only.

See Notes to Financial Statements - Grant Programs.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

ICCB COMPLIANCE STATEMENT FOR WORKFORCE  
DEVELOPMENT (BUSINESS/INDUSTRY) GRANT  
TOTAL EXPENDITURES FOR ICCB GRANT FUNDS ONLY  
Year Ended June 30, 2009

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	General	Operation of Workforce Devel. Office	Total
Expenditures from grant sources only - Personnel (Salaries and Benefits)*	\$ 24,037	\$ 29,379	\$ 53,416
Totals	<u>\$ 24,037</u>	<u>\$ 29,379</u>	<u>\$ 53,416</u>

\* Salaries charged to this grant should be paid commensurate with the percentage of time spent working on business and industry/economic development activities. Staff development and travel costs should only be paid for staff that spend 51% or more of their time on work in the business assistance center or economic development office.

See Notes to Financial Statements - Grant Programs.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506**

**STATE ADULT EDUCATION AND FAMILY LITERACY GRANTS  
BALANCE SHEET  
June 30, 2009**

<b>ASSETS</b>	State Basic	Public Assistance	Performance	Total (Memorandum Only)
Cash	\$ -	\$ -	\$ -	\$ -
Accrued revenue	17,036	15,565	7,431	40,032
<b>Total assets</b>	<b>\$ 17,036</b>	<b>\$ 15,565</b>	<b>\$ 7,431</b>	<b>\$ 40,032</b>
 <b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accrued expenditures	\$ -	\$ -	\$ 169	\$ 169
Cash - Interfund	17,036	15,565	7,262	39,863
	17,036	15,565	7,431	40,032
<b>Fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and fund balance</b>	<b>\$ 17,036</b>	<b>\$ 15,565</b>	<b>\$ 7,431</b>	<b>\$ 40,032</b>

See Notes to Financial Statements - Grant Programs.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

STATE ADULT EDUCATION AND FAMILY LITERACY GRANTS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 Year Ended June 30, 2009

	State Basic	Public Assistance	Performance	Total (Memorandum Only)
<b>Revenues*</b>				
State sources	\$ 73,824	\$ 62,258	\$ 32,201	\$ 168,283
<b>Expenditures by program:</b>				
Instruction	41,255	28,070	8,472	77,797
Social work services	7,089	6,402	3,200	16,691
Guidance services	9,867	7,295	2,553	19,715
Assessment & testing	7,855	9,150	6,525	23,530
<b>Total instructional and student services</b>	<b>66,066</b>	<b>50,917</b>	<b>20,750</b>	<b>137,733</b>
Improvement of instructional services	1,259	1,183	732	3,174
General administration	2,100	1,634	1,616	5,350
Operation and maintenance of plant	4	2	-	6
Workforce coordination	299	1,028	583	1,910
Data and information services	4,096	7,494	8,520	20,110
<b>Total program support</b>	<b>7,758</b>	<b>11,341</b>	<b>11,451</b>	<b>30,550</b>
<b>Total expenditures</b>	<b>73,824</b>	<b>62,258</b>	<b>32,201</b>	<b>168,283</b>
Excess of revenues over expenditures	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

\* ICCB grant funds only.

See Notes to Financial Statements - Grant Programs.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

STATE ADULT EDUCATION AND FAMILY LITERACY GRANTS  
EXPENDITURE AMOUNTS AND PERCENTAGES FOR ICCB FUNDS ONLY  
Year Ended June 30, 2009

---

<b>State Basic</b>	<b>Audited Expenditure Amount</b>	<b>Actual Expenditure Percentage</b>
Instruction (45% minimum required)	\$ 41,255	55.9%
General administration (9% maximum allowed)	2,100	2.8%

<b>State Public Assistance</b>	<b>Audited Expenditure Amount</b>	<b>Actual Expenditure Percentage</b>
Instruction (45% minimum required)	\$ 28,070	45.1%
General administration (9% maximum allowed)	1,634	2.6%

See Notes to the Financial Statements - Grant Programs.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506**

**CAREER AND TECHNICAL EDUCATION - PROGRAM IMPROVEMENT  
BALANCE SHEET**

**June 30, 2009**

---

**ASSETS**

Cash \$ -

**LIABILITIES AND FUND BALANCE**

Liabilities \$ -

Fund balance                     

**Total liabilities and fund balance** \$ -

See Notes to Financial Statements - Grant Programs.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

CAREER AND TECHNICAL EDUCATION - PROGRAM IMPROVEMENT  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2009

---

Revenues*	
State sources	<u>\$ 10,849</u>
Expenditures -	
Current year's grant	
Materials and supplies	10,849
Capital outlay	<u>-</u>
<b>Total expenditures</b>	<u>10,849</u>
<b>Excess of revenues over expenditures</b>	-
Fund balance, beginning of year	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>

\*ICCB grant funds only.

See Notes to Financial Statements - Grant Programs.

**Note 1. Description of Programs**

Career and Technical Education Program Improvement Grant Program

Grant funding recognizes that keeping career and technical education programs current and reflective of the highest quality practices in the workplace is necessary to prepare students to be successful in their chosen careers and to provide employers with the well trained workforce they require. The grant funds are dedicated to enhancing instruction and academic support activities to strengthen and improve career and technical programs and services.

Workforce Development-Business/Industry Grant Program

Provides funding for a business/industry center at every college to provide a variety of employment training and business services outside of the classroom.

State Adult Education and Family Literacy Grants

State Basic

Grant awarded to Adult Education and Family Literacy providers to establish special classes for the instruction of persons of age 21 and over or persons under the age of 21 and not otherwise in attendance in public school. This grant is for the purpose of providing adults in the community instruction as may be necessary to increase their qualifications for employment or other means of self-support and to increase their ability to meet their responsibilities as citizens including courses of instruction regularly accepted for graduation from elementary or high schools and for Americanization and General Education Development Review classes. Included in this grant are funds for support services, such as student transportation and childcare facilities or provision.

Public Assistance

Grant awarded to Adult Education and Family Literacy providers to pay for any fees, books, and materials incurred in the program for students who are identified as recipients of public assistance.

Performance

Grant awarded to Adult Education and Family Literacy providers based on performance outcomes.

**Note 2. Significant Accounting Policies**

General: The accompanying statements include only those transactions resulting from the Illinois Community College Board (ICCB) Career and Technical Education-Program Improvement, Workforce Development Components, and State Adult Education and Family Literacy Grant Programs. These transactions have all been accounted for in the Restricted Purpose Fund.

Basis for accounting: The statements have been prepared on the modified accrual basis of accounting. Expenditures include all accounts payable representing liabilities for goods and services actually received as of June 30, 2009. Funds obligated for goods prior to June 30 for which the goods are received prior to August 31, are recorded as encumbrances. Unexpended funds are reflected as a reduction to fund balance and a liability due to the ICCB by October 15.

Fixed assets: Fixed asset purchases are recorded as capital outlay and are not capitalized.

**Note 3. Payments of Prior Year's Encumbrances**

Payments of prior year's encumbrances for goods received prior to August 31 are reflected as expenditures during the current fiscal year.

# McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report on Compliance Based on  
an Audit of Financial Statements Performed in Accordance with  
Auditing Standards Generally Accepted in the United States of America**

To the Board of Trustees  
Sauk Valley Community College District 506  
Dixon, Illinois

We have audited the financial statements as of and for the year ended June 30, 2009 of the Workforce Development Grant, State Adult Education and Family Literacy Grants, and Career and Technical Education-Program Improvement Grants of Sauk Valley Community College District 506 (the College), and have issued our report thereon dated April 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

As part of obtaining reasonable assurance about whether the financial statements of the Workforce Development Grant, State Adult Education and Family Literacy Grants, and Career and Technical Education-Program Improvement Grants of the College are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and grant policy guidelines of the Illinois Community College Board's *Fiscal Management Manual*, 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 that are required to be reported under auditing standards generally accepted in the United States of America.

This report is intended for the information of the Board of Trustees, management of Sauk Valley Community College District 506, and the Illinois Community College Board. It is not intended to be used and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Rockford, Illinois  
April 30, 2010

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report on the Schedule of Enrollment Data and Other Bases Upon Which Claims Are Filed

Board of Trustees  
Sauk Valley Community College District 506  
Dixon, Illinois

We have examined the accompanying Schedule of Enrollment Data and Other Bases Upon Which Claims Are Filed of Sauk Valley Community College District 506 (College) for the year ended June 30, 2009. The Schedule of Enrollment Data and Other Bases Upon Which Claims Are Filed is the responsibility of the College's Management. Our responsibility is to express an opinion on the schedule based upon our examination.

Our examination was made in accordance with the guidelines of the Illinois Community College Board's *Fiscal Management Manual*, attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included such procedures as we considered necessary in the circumstances.

In our opinion, the accompanying Schedule of Enrollment Data and Other Bases Upon Which Claims Are Filed is fairly presented in accordance with the provisions of the aforementioned guidelines.

*McGladrey & Pullen, LLP*

Rockford, Illinois  
April 30, 2010

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

SCHEDULE OF ENROLLMENT DATA AND OTHER BASES UPON WHICH CLAIMS ARE FILED  
Year Ended June 30, 2009

Total Semester Credit Hours by Term (In-District and Out of District Reimbursable)

Categories	Summer 2008		Fall 2008		Spring 2009		Total	
	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted	Restricted
Baccalaureate	2,512.0	-	13,035.0	12.5	13,621.0	-	29,168.0	12.5
Business Occupational	302.0	-	1,686.0	91.0	1,772.0	19.5	3,760.0	110.5
Technical Occupational	429.0	-	2,328.5	-	2,618.0	-	5,375.5	-
Health Occupational	719.5	-	2,521.5	25.0	2,553.5	-	5,794.5	25.0
Remedial Development	247.0	-	2,302.0	-	1,552.0	-	4,101.0	-
Adult Basic Education/Adult Secondary Education	-	165.0	-	567.0	-	691.0	-	1,423.0
Total credit hours verified	4,209.5	165.0	21,873.0	695.5	22,116.5	710.5	48,199.0	1,571.0

	In-District	Attending Out-of-District on Chargeback or Contractual Agreement	Total
Semester credit hours	<u>47,991.50</u>	<u>989.00</u>	<u>48,980.50</u>
District 2008 equalized assessed valuation		\$	<u>1,471,693,830</u>

  
Chief Executive Officer (CEO)

  
Chief Financial Officer (CFO)

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

RECONCILIATION OF TOTAL REIMBURSABLE SEMESTER CREDIT HOURS  
Year Ended June 30, 2009

	Total Unrestricted Credit Hours	Total Unrestricted Credit Hours Certified to the ICCB	Difference	Total Restricted Credit Hours	Total Restricted Credit Hours Certified to the ICCB	Difference
Baccalaureate	29,168.0	29,168.0	-	12.5	12.5	-
Business Occupational	3,760.0	3,760.0	-	110.5	110.5	-
Technical Occupational	5,375.5	5,375.5	-	0.0	0.0	-
Health Occupational	5,794.5	5,794.5	-	25.0	25.0	-
Remedial Development	4,101.0	4,101.0	-	0.0	0.0	-
Adult Basic Education/Adult Secondary Education	0.0	0.0	-	1,423.0	1,423.0	-
<b>Total</b>	<b>48,199.0</b>	<b>48,199.0</b>	<b>-</b>	<b>1,571.0</b>	<b>1,571.0</b>	<b>-</b>

RECONCILIATION OF IN-DISTRICT/CHARGEBACK AND COOPERATIVE/  
CONTRACTUAL AGREEMENT CREDIT HOURS  
Year Ended June 30, 2009

	Total Attending	Total Attending as Certified to the ICCB	Difference
Reimbursable in-district residents	47,991.50	47,991.50	-
Reimbursable out-of-district on chargeback or contractual agreement	989.00	989.00	-
	<u>48,980.50</u>	<u>48,980.50</u>	<u>-</u>

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
STUDENT RESIDENCY VERIFICATION PROCESS  
Year Ended June 30, 2009**

The following procedures detail the process for verifying the residency status of the students of Sauk Valley Community College District 506 (College).

An in-district student is one whose legal residence is within the boundaries of the Sauk Valley Community College District. New students to the district must reside in the district at least 30 days prior to registration to be eligible for in-district tuition. All students applying for admission to Sauk Valley Community College are required to certify on the Student Information Form that the address given is correct. They will be subject to dismissal if found inaccurate. Returned mail to the College creates cause to question residency. If an address is questioned, the student will be coded as out-of-district and must display proof of residency in order to regain in-district status. Proof of residency may include a driver's license, voter's registration card, property tax bill, or an apartment lease. For tuition purposes only (not for State funding classification), in-district tuition will be granted to a student who presents either a recent paycheck stub from an in-district employer, a property tax bill for in-district property owned by the student, or an authorized chargeback form. Residents of states other than Illinois will be classified as out-of-state.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506**  
**SUMMARY OF ASSESSED VALUATIONS**  
**MOST RECENT THREE YEARS**  
**Year Ended June 30, 2009**

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<u>Tax Levy Year</u>	<u>Equalized Assessed Valuation</u>
2008	\$ 1,471,693,830
2007	1,410,485,382
2006	1,336,223,749

# McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's 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  
Sauk Valley Community College District 506  
Dixon, Illinois

We have audited the financial statements of the business-type activities and the discretely presented component unit of Sauk Valley Community College District 506 (the College) as of and for the year ended June 30, 2009 which collectively comprise the College's basic financial statements and have issued our report thereon dated April 30, 2009. Our report was qualified because we were unable to obtain sufficient evidence supporting the fair market value of the discretely presented component unit's property and equipment in order to assess the amount of impairment of these assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## **Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 09-1 through 09-3 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 09-2 through 09-4 to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as finding 09-4.

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

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, 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.

*McGladrey & Pullen, LLP*

Rockford, Illinois  
April 30, 2010

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Trustees  
Sauk Valley Community College District 506  
Dixon, Illinois

### Compliance

We have audited the compliance of the Sauk Valley Community College District 506 (the College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 09-5 and 09-6.

### Internal Control Over Compliance

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

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

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

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

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

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, 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.

*McGladrey & Pullen, LLP*

Rockford, Illinois  
April 30, 2010

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title:	Federal CFDA Number	Pass-Through Grant Number	Expenditures
U.S. Department of Education:			
Student Financial Aid Cluster:			
Federal Family Education Loans (FFEL) (Note 2)	(M)84.032		\$ 947,424
Supplemental Educational Opportunity Grant	(M)84.007		68,853
Academic Competitiveness Grant	(M)84.375		44,150
College Work Study Program	(M)84.033		183,803
Pell Grant Program	(M)84.063		2,317,852
Pell Grant Program - Administrative allowance	(M)84.063		12,796
<b>Total Student Financial Aid Cluster</b>			<u>3,574,878</u>
TRIO-Student Support Services	84.042A		226,560
Endowment Challenge Grant I (Note 3)	84.031g		982,233
Endowment Challenge Grant II (Note 3)	84.031g		1,035,430
Passed through the Illinois Community College Board:			
VE Title III E Tech Prep	84.243A	09PCCS5060	65,559
Junior Healthcare Academy	84.048	08D263.06	3,169
Focusing Families on the Future	84.048	08D263.11	2,994
CTE Regional Collaboration	84.048	09RC506	6,000
CTE Innovation	84.048	CTEL09506	7,409
CTE Perkins Postsecondary	84.048	CTE50609	184,222
Women in Criminal Justice	84.048	08D263.07	1,500
Women in Engineering	84.048	08D263.08	1,450
ISU Non Traditional Nursing	84.048	08D263.22	1,500
ISU FUSE	84.048	08D263.05	3,497
Federal Adult Education	84.002A	50601	<u>75,111</u>
<b>Total U.S. Department of Education</b>			<u>6,171,512</u>
National Endowment for the Humanities:			
Passed through Illinois Humanities Council			
Promotion of the Humanities Federal/State Partnership	45.129		<u>9,451</u>
Corporation for National and Community Service			
Passed through the Illinois Department of Health and Human Services			
AmeriCorps - Formula Program	94.006	11G7091000	<u>213,599</u>
Small Business Administration:			
Passed through the Illinois Department of Small Business Administration:			
Small Business Development Grant	59.037	09-181178	54,000
Small Business Development Grant	59.037	08-561178	44,385
<b>Total Small Business Administration</b>			<u>98,385</u>
<b>Total Federal Grant Activity</b>			<u><u>\$ 6,492,947</u></u>

CFDA - Catalog of Federal Domestic Assistance

See Notes to the Schedule of Expenditures of Federal Awards.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2009**

---

**Note 1. Significant Accounting Policy**

Reporting entity and basis of accounting: The accompanying schedule of expenditures of federal awards includes the federal grant activity of Sauk Valley Community College District 506 and its discretely presented component unit, Sauk Valley Community College Foundation (collectively, the College) for the year ended June 30, 2009, and is presented on the modified 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.

**Note 2. Loan Program**

The College's participation in the U. S. Department of Education's Student Financial Assistance Program includes the Stafford Loan Program. The College does not make the loan as this is done directly with the students by the lenders. The College includes the value of the loans made during the year as federal awards expended in the schedule of expenditures of federal awards. The balance of the loans from previous years is not included because the lender accounts for the prior balances.

**Note 3. Endowment Grants**

The College's schedule of expenditures of federal awards (the Schedule) includes amounts reported for the College's participation in the U.S. Department of Education's Endowment Challenge Grants. In 1990 and 1993, the College received grants in the amounts of \$250,000 and \$321,795, which were to be maintained by the College for a period of 20 years. The grants held matching provisions which were met by the College prior to receipt of the federal funds. The amounts reported in the Schedule, in accordance with the grant agreements, represent the original grant amount, the College's match, and 50% of the endowment earnings through June 30, 2009.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009**

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**I. SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued: Unqualified on business-type activities  
Qualified on discretely presented component unit

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

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

Type of auditor's 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?  Yes  No

Identification of major program:

CFDA Number	Name of Federal Program/Cluster
84.007, 84.033, 84.063, 84.032, 84.375	Student Financial Aid Cluster
84.031g	Endowment Challenge Grant I
84.031g	Endowment Challenge Grant II

Dollar threshold used to distinguish between type A and type B program: \$ 300,000

Auditee qualified as low-risk auditee?  Yes  No

(Continued)

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009

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II. FINANCIAL STATEMENT FINDINGS

**(A) Significant Deficiencies and Material Weaknesses in Internal Control**

Finding No. 09-1 Segregation of Duties - Payroll

Criteria or Specific Requirement:

Internal control is the process, affected by management and other personnel, designed to provide reasonable assurance that transactions are properly recorded and accounted for and that transactions are executed in compliance with laws, regulations, and the provisions of contracts or grant agreements. Segregation of duties is an aspect of an internal control environment.

Condition and Context:

There is an inadequate control over the functions of processing and recording the payroll for the College due to an inadequate segregation of duties stemming from limited personnel. During the process of obtaining an understanding of internal control in planning the audit, assessing control risk and assessing fraud risks, a lack of segregation of duties was noted.

Effect:

A lack of segregation of duties is a deficiency in internal control that could lead to errors or irregularities in the processing and recording of payroll transactions.

Cause:

Limited personnel over accounting transactions which is not economically feasible to correct through hiring of additional personnel.

Recommendation:

We recommend that management evaluate the controls in place, take steps to further segregate duties relative to payroll and consider the need for additional personnel within the accounting department.

Management's Response:

The College has hired an additional accountant and is in the process of updating the procedures to maximize internal controls.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009**

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**II. FINANCIAL STATEMENT FINDINGS (Continued)**

Finding No. 09-2 Segregation of Duties – Financial Transactions

Criteria or Specific Requirement:

Internal control is the process, affected by management and other personnel, designed to provide reasonable assurance that transactions are properly recorded and accounted for and that transactions are executed in compliance with laws, regulations, and the provisions of contracts or grant agreements. Segregation of duties is an aspect of an internal control environment.

Condition and Context:

There is an inadequate control over the functions of processing and recording the financial transactions for the College's discretely presented component unit due to an inadequate segregation of duties stemming from limited personnel. During the process of obtaining an understanding of internal control in planning the audit, assessing control risk and assessing fraud risks, a lack of segregation of duties was noted.

Effect:

A lack of segregation of duties is a deficiency in internal control that could lead to errors or irregularities in the processing and recording of financial transactions.

Cause:

The College's discretely presented component unit has limited personnel over accounting transactions which is not economically feasible to correct through hiring of additional personnel.

Recommendation:

Management should consider the costs and benefits associated with having enough staff to segregate the recording, authorization, and custody functions. If hiring new staff or allocating duties among current staff is not feasible, management should review that proper controls are in place over these functions to prevent or detect misappropriation of assets.

Management's Response:

The College's discretely presented component unit is reviewing procedures to identify areas where additional controls can be put in place.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009

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II. FINANCIAL STATEMENT FINDINGS (Continued)

Finding No. 09-3 Financial Reporting

Criteria or Specific Requirement:

Internal control is the process, affected by management and other personnel, designed to provide reasonable assurance that transactions are properly recorded, accounted for, and presented and that transactions are executed in compliance with laws, regulations, and the provisions of contracts or grant agreements. Management's preparation and/or review of the financial statements and its accompanying disclosures is an aspect of an internal control environment.

Condition and Context:

Proper internal controls include timely and accurate preparation of journal entries at each period end, a review of the internally developed financial statements, and reconciliations of subsidiary journals to the general ledger. We noted certain deficiencies in accounting practices throughout the year that are necessary to produce quality and accurate internal financial statements. The College's discretely presented component unit has not performed a valuation of the student housing building for impairment determination and they have not adequately tested and documented alternative investments in the Common Fund. Additionally, management discovered an error in previously reported financial statements during the current year related to the proper accounting for funds received by the College's discretely presented component unit to be held for the benefit of the College. The amount of the error relating to prior periods was approximately \$2,400,000. We recommend that management establish a separate file for each significant endowment fund donation which would document the process used to determine the appropriate accounting treatment and to retain significant relative donor documentation. We also recommend the College review the financial statements received by the third party relative to the discretely presented component unit's wholly owned subsidiary on a monthly basis for reasonableness and should instruct the third party to post adjustments each month for an estimate of monthly depreciation and accrued interest if necessary and have a valuation done on the student housing building. In addition, on an annual basis, management should evaluate the accounting treatments used, together with any changes in the respective accounting guidance, to ensure continued appropriateness.

Effect:

Without adequate and up-to-date knowledge of generally accepted accounting principles, a deficiency in internal control is present that could lead to financial reporting misstatements that may not be prevented or detected by the College's internal control.

Cause:

Limited personnel over the accounting function, which are not trained in monitoring recent accounting developments to the extent necessary to enable them to review the Foundation's financial statements and related disclosures to provide a high level of assurance that potential omissions or other errors would be identified and corrected.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009**

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**II. FINANCIAL STATEMENT FINDINGS (Continued)**

Recommendation:

The College's discretely presented component unit should consider the costs and benefits associated with implementing a comprehensive review procedure to ensure that the financial statements, including disclosures are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of the College's and component unit's activities and operations.

Management's Response:

Management of the discretely presented component unit will utilize the College's accounting staff to review the monthly financial statements that will go to their Board of Directors.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009

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II. FINANCIAL STATEMENT FINDINGS (Continued)

**(B) Compliance Findings**

Finding No. 09-4 Repayment of Debt

Criteria or Specific Requirement:

Sauk Valley Student Housing LLC (the LLC), a wholly-owned subsidiary of Sauk Valley College Foundation (the Foundation), entered into an agreement with the Illinois Finance Authority (IFA). The IFA, on behalf of the LLC, issued \$6,725,000 of tax-exempt variable rate demand revenue bonds and \$395,000 of taxable variable rate demand revenue bonds. The proceeds from the sale of the bonds were loaned to the LLC for the purpose of financing the cost of construction and equipping an approximately 48 unit, 142 bed on campus housing facility for the College's students.

Condition and Context:

Management of the College's discretely presented component unit, the Foundation, has indicated they are unable to repay their debt due to a lack of unrestricted assets and have no plans to raise funds for such purpose.

Effect:

The Foundation is not meeting the debt covenants which have caused the debt to be classified as current. The inability to repay the debt has raised substantial doubt as to the Foundation's ability to continue as a going concern.

Cause:

The rental occupancy experienced by the LLC is not currently sufficient to provide cash flows adequate to meet the LLC's cost of operations and debt service.

Recommendation:

We recommend that management prepare a formal plan to address this issue of making debt payments and how they intend to continue as a going concern.

Management's Response:

The Foundation's Board of Directors is currently meeting regularly with its attorney and the bank to come to a resolution.

SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009

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III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

(A) Significant Deficiencies and Material Weaknesses in Internal Control

Note reported.

(B) Compliance Findings

Finding No. 09-5 Title IV Funds Bank Account

U.S. Department of Education  
Student Financial Assistance Programs Cluster  
Federal Family Education Loans (FFEL) (CFDA 84.032)  
Supplemental Education Opportunity Grant (CFDA 84.007)  
Academic Competitiveness Grant (CFDA 84.375)  
College Work Study Program (CFDA 84.033)  
Pell Grant Program (CFDA 84.063)  
Federal Award Year: 2008-2009

Criteria or Specific Requirement:

Federal requirements state that federal funds are to be maintained in a bank account with "federal" in the title or the bank is to be notified that the account contains Title IV funds and a copy of the notice is to be retained.

Condition and Context:

Title IV funds are maintained in the general operating bank account. The account does not have "federal" in the title and no notice was given to the bank stating that the account contains Title IV funds.

Questioned Costs:

None.

Effect:

Not in compliance with federal requirements.

Cause:

The College was unaware of this requirement.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009**

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**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

Recommendation:

The College should set up a separate bank account for federal funds and the name of the account should include the word "federal", or written notice should be given to the bank stating the general operating account includes Title IV funds.

Management's Response:

Notice has been given to the Sterling Federal Bank that the bank accounts of Sauk Valley Community College District 506 hold federal funds.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009**

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**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

Finding No. 09-6 Timely Return of Title IV Funds

U.S. Department of Education  
Student Financial Assistance Programs Cluster  
Federal Family Education Loans (FFEL) (CFDA 84.032)  
Supplemental Education Opportunity Grant (CFDA 84.007)  
Academic Competitiveness Grant (CFDA 84.375)  
College Work Study Program (CFDA 84.033)  
Pell Grant Program (CFDA 84.063)  
Federal Award Year: 2008-2009

Criteria or Specific Requirement:

Federal requirements state that returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew

Condition and Context:

While performing refund testing, it was noted that for 1 out of 23 refunds tested, notification of the refund was not made timely.

Questioned Costs: None

Effect:

Not in compliance with federal requirements.

Cause:

The student withdraw was missed when processing refunds. The funds were returned at the end of the semester, because the student withdrawal date was processed based on a report which is run to list all students who withdrew or failed a class.

Recommendation:

Management should verify that refunds have been processed for all students who have a withdrawal date in the system and who have received Title IV funding.

Management's Response:

Management will implement procedures to ensure that notification of refunds is made timely in all cases.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2009**

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Finding No. 08-01 – Segregation of Duties

There is an inadequate control over the functions of processing and recording the financial transactions of the Foundation due to an inadequate segregation of duties stemming from limited personnel. This finding is repeated as finding 09-02.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
CORRECTIVE ACTION PLAN  
Year Ended June 30, 2009**

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Finding 09-1 – Segregation of Duties – Payroll:

There is inadequate control over the functions of processing and recording payroll for the College due to an inadequate segregation of duties stemming from limited personnel.

Corrective Actions Taken: The College has hired an additional accountant and is in the process of updating the procedures to maximize internal controls.

Finding 09-2 – Segregation of Duties – Financial Transactions:

There is inadequate control over the functions of processing and recording the financial transactions for the College's discretely presented component unit due to an inadequate segregation of duties stemming from limited personnel.

Corrective Actions Taken: The College's discretely presented component unit is reviewing procedures to identify areas where additional controls can be put into place.

Finding 09-3 – Financial Reporting:

Proper internal controls include timely and accurate preparation of journal entries at each period end and a review of the internally developed financial statements, and reconciliations of subsidiary journals to the general ledger. There were certain deficiencies in accounting practices throughout the year that are necessary to produce quality and accurate internal financial statements. The College's discretely presented component unit has not performed a valuation of the student housing building for impairment determination and they have not adequately tested and documented alternative investments in the Common Fund. Additionally, management discovered an error in previously reported financial statements during the current year related to the proper accounting for funds received by the College's discretely presented component unit to be held for the benefit of the College.

Corrective Actions Taken and Planned: Management of the discretely presented component unit will utilize the College's accounting staff to review the monthly financial statements that will go to their Board, which is currently meeting regularly with its attorney and the bank to come to a resolution regarding the student housing and its related assets and liabilities. The College and its component unit have restated beginning net assets as of June 30, 2008 to correct the error in previously reported financial statements.

Finding 09-4 – Repayment of Debt:

Management of Sauk Valley Community College Foundation (the Foundation), the College's discretely presented component unit, has indicated they are unable to repay their debt due to lack of unrestricted assets and have no plans to raise funds for such a purpose.

Corrective Actions Taken and Planned: The Foundation's Board of Directors is currently meeting regularly with its attorney and the Bank to come to a resolution.

**SAUK VALLEY COMMUNITY COLLEGE DISTRICT 506  
CORRECTIVE ACTION PLAN  
Year Ended June 30, 2009**

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**CORRECTIVE ACTION PLAN (Continued)**

Finding 09-5 – Title IV Funds Bank Account – College:

Title IV funds are maintained in the general operating bank account. The account does not have "federal" in the title and no notice was given to the bank stating that the account contains Title IV funds.

Corrective Actions Taken: Notice has been given to the Sterling Federal Bank that the bank accounts of Sauk Valley Community College District 506 hold federal funds.

Finding 09-6 – Timely Return of Title IV Funds:

While performing refund testing, it was noted that for 1 out of 23 refunds tested, notification of the refund was not made timely.

Corrective Actions Taken: Management will implement procedures to ensure that notification of refunds is made timely in all cases.