

McGladrey & Pullen
Certified Public Accountants

Heartland Community College

Financial and Compliance Report
06.30.2008

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October 15, 2008

To President Astroth, Members of the Board of Trustees and Citizens of Heartland Community College District No. 540:

The Comprehensive Annual Financial Report (CAFR) of Heartland Community College District No. 540, Normal, Illinois, as of and for the fiscal year ended June 30, 2008 is hereby submitted.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the College. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the College. All disclosures necessary to enable the reader to gain an understanding of the College's financial activities in relation to its mission have been included.

McGladrey & Pullen LLP, Certified Public Accountants, have issued an unqualified (clean) opinion on Heartland Community College District No. 540's basic financial statements for the year ended June 30, 2008. The independent auditor's report is located at the front of the financial section of the report.

This letter of transmittal should be read in conjunction with Management's Discussion and Analysis (MD&A) which immediately follows the independent auditor's report. The MD&A provides a narrative introduction, overview and analysis of the basic financial statements and it focuses on current activities, accounting changes and currently known facts.

PROFILE OF THE COLLEGE

Heartland Community College is a comprehensive community college operating in accordance with the provisions of the Illinois Public Community College Act and is recognized by the Illinois Community College Board. The College District extends roughly from Lincoln, Illinois in the south, along Interstate 55, and north to Pontiac, Illinois. Of the approximately 200,000 district residents, about two-thirds reside in incorporated areas. Bloomington-Normal is the largest population center of this region. The District includes most of McLean County and parts of DeWitt, Ford, Livingston, Logan and Tazewell counties. The main campus is located in Normal, Illinois (McLean County) with extension centers in both Lincoln and Pontiac.

Philosophy, Mission and Goals

Heartland Community College is committed to student success. The College represents a vital and progressive community resource by fulfilling its mission of **"access to higher education and excellence in teaching and learning"** via the following institutional purposes and goals:

Access to Higher Education

We admit any student who can benefit from our programs and services and provide academic, financial and other support services designed to maximize their potential for success.

We offer instruction and services in convenient locations, times and formats and maintain a moderate tuition.

Excellence in Teaching and Learning

We respond to the lifelong learning needs of a diverse student body.

We prepare students for success in life by providing career and technical education, developmental education and the first two years of a bachelor's degree.

We provide community education programs, public service opportunities and training for district employers and their employees.

We cultivate community success through programs that reflect and anticipate academic and economic needs.

We teach students to think critically, to solve problems, to communicate effectively in both speaking and writing, and to analyze issues from multiple perspectives.

We prepare students for effective citizenship within a global context by promoting an appreciation of human diversity and commonality.

We hold students to high expectations for learning and growth through continual assessment and improvement of our academic programs.

We prepare students for life beyond the classroom through a variety of activities related to student interests.

We recognize outstanding teaching and encourage the use of emerging technology and innovative methods.

We support professional development for all employees as we strive for continuous improvement.

History

The Public Community College Act of 1965 provides the legal framework for the creation and operation of community colleges in the State of Illinois. After much planning, including several feasibility studies started initially in 1971 as well as three unsuccessful referenda, the State determined enough population and property wealth existed in the Bloomington-Normal area to support a new community college district. In 1990, the ICCB mandated the establishment of a community college district for the area of the State now known as Heartland Community College. District residents elected a Board of Trustees in November 1990 and the Board appointed its founding President in April 1991.

The College has grown significantly since its first semester of classes in the Fall of 1991 when total enrollment was 811 students. For the Fall of 2008, student enrollment was 4,983 students. The College has also grown physically, initially offering classes in several leased and rented facilities and now occupying an 8 year-old permanent campus location in Normal, Illinois with more than 340,000 gross square feet.

The College continues to lease some space within Bloomington-Normal, Lincoln, and Pontiac to meet the facility needs of its student body and employee base. During fiscal year 2008, construction was started on the first two of six buildings/building additions planned for in the campus development construction plan. The Workforce Development Center also opened for classes in the Fall of 2007.

Accreditation History

Heartland Community College was granted candidacy status by the North Central Association of Colleges and Schools (NCA) in August 1992. The College prepared its first self-study and applied for accreditation in the spring of 1994. At the May 1994 meeting of the NCA the College was granted full accreditation through 1999. The most recent NCA evaluation was completed during fiscal year 1999. At its August 1999 meeting, the NCA voted to continue Heartland's accreditation for ten more years and scheduled its next site visit and evaluation for fiscal year 2009.

During fiscal year 2006, the College applied successfully for admission to the Higher Learning Commission's Academic Quality Improvement Program (AQIP). This new initiative replaces the traditional accreditation self-study process; it incorporates ongoing projects designed to achieve self-improvement in the College's mission critical areas. Institutions that have been admitted to AQIP automatically receive seven more years of accreditation.

The Heartland Child Development Lab and Learning Center also achieved national accreditation during fiscal year 2006 from the National Association for the Education of Young Children. The accreditation period is for five years.

FINANCIAL INFORMATION

The College maintains its accounts and prepares its financial statements in accordance with accounting principles generally accepted in the United States of America as set forth by the Governmental and Financial Accounting Standards Boards, the National Association of College and University Business Officers and the ICCB. The ICCB requires accounting by funds in order that limitations and restrictions on resources can be easily accounted for. The financial records of the College are maintained on the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal obligation to pay. The notes to the financial statements expand and explain the financial statements and the accounting principles applied.

The Business Services Division is responsible for directing the College's fiscal, human resources, administrative services, information technology, and facilities operations. Managing resources in a high growth environment, with strict attention to dynamic facility, technology, and staffing requirements has been the primary goal of the Division. Financial resources and their management have also been strongly influenced by the Board of Trustees. The Board's financial policies, directives and decisions have set the tone for fiscal prudence and accountability since the College's founding.

Management of the College is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the College are protected from loss, theft, or misuse, and to ensure that transactions are properly recorded to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of the costs and benefits requires estimates and judgments by the College.

Each year, tests are performed by the College's independent auditors to determine the adequacy of the internal control structure, as well as to determine whether the College has complied with all applicable laws and regulations. For the fiscal year ended June 30, 2008, tests performed by the auditors indicated that there were no weaknesses in the internal control structure and no noted violations of applicable laws or regulations. As demonstrated by the statements and schedules included in the financial section of this report, the College continues to meet its responsibility for sound financial management.

ECONOMIC CONDITION AND OUTLOOK

District Economy

The Heartland Community College district is an important business and agricultural region in central Illinois, supported by a major automobile manufacturer and related automotive suppliers, two major insurance companies, farm implement and agricultural products dealers, and financial and health care institutions. Some of the largest employers in the district are State Farm Insurance Companies (corporate and regional headquarters), Mitsubishi Motor Manufacturing, Illinois State University, Country Financial, BroMenn Healthcare, OSF-St. Joseph Medical Center, McLean County, Anderson Financial Network, Inc., and the two local school districts.

The District has several higher education institutions. Bloomington-Normal is the location of two major universities, Illinois State University in Normal (with an on-campus enrollment of about 20,000 students) and Illinois Wesleyan University in Bloomington (with an enrollment of almost 2,100 students). Lincoln, in the southern part of the district, has two colleges: Lincoln College, a private two-year college that offers instruction in Lincoln and Normal to about 1,700 students, and Lincoln Christian College, a private four-year institution of about 300 students. Several cooperative arrangements and educational alliances have been established with some of these institutions, as well as with some of our peer Illinois community colleges.

Unemployment in McLean County has remained relatively low for the past several years. From 2003 through 2007, unemployment has ranged between 3.5% and 4.3% annually. McLean County retail sales in 2006 were \$2.17 billion which was an increase of .5 percent over 2005. The population of McLean County has increased by more than 30,000 since 1991 when the College opened. The 2005 population of the County was 159,705. Population in the County is projected to continue to grow, reaching 187,086 by the year 2020. These economic growth indicators bode well for a growing college.

The College District's 2007 tax levy base of \$3,764,474,185 increased by 5.15% over the 2006 tax base. Equalized assessed valuation (EAV) has grown rapidly since the College's founding in 1990, with growth of more than 50% over the past ten years. The value of farmland and the rate of construction growth, both residential and by some of the major employers, have been key factors in the District's economic growth. EAV is projected to continue to grow at between 3% and 5% per annum. Local property taxes will continue to be a significant source of revenue for this growing institution. During fiscal year 2008, local property taxes accounted for 40% of total revenues.

College Enrollment

Enrollment continues to increase steadily each year. For the fall semester of fiscal year 2009 (Fall 2008), student headcount (at tenth day) reached a new high of 4,983 students and 46,727 credit hours. This is an increase of 3.3% in headcount and 3.6% in credit hours from Fall 2007 to Fall 2008. Likewise, from Fall 2006 to Fall 2007, student headcount increased by 1.0% and credit hours increased by 6.4%. Reimbursable credit hours increased by 2,256 hours (or 2.6%) from 85,855 in fiscal year 2007 to 88,111 for fiscal year 2008.

The fiscal year 2009 budget was predicated on an overall 4.7% increase in credit hour growth over fiscal year 2008. Credit hour growth is projected for fiscal year 2010 and beyond, when local and national economic and population factors are considered as well as increased offerings in the six buildings under construction at the permanent campus.

Tuition increases of \$5 per hour and \$10 per hour were made in the summer of 2007 and 2008, respectively, to counter the declines in State funding levels. Heartland's current per credit hour tuition and fees rate of \$87.00 is still below the State of Illinois average for community colleges.

The College's continuing education program continued to realize enrollment increases during fiscal year 2008. Sales and service fees from continuing education programs once again exceeded \$1,000,000. Adult, community and corporate education programs and offerings are projected to continue growing in fiscal year 2009, as evidenced by the encouraging summer and fall 2008 activity. The College has the resources required to serve a growing student enrollment.

The ethnicity of Heartland's students, for the most part, reflects that of the District in that approximately 80% of the students are white non-Hispanic. Over 30% of the students receive financial aid, mainly from federal and state grants, scholarships, and student employment.

CASH MANAGEMENT

The College is authorized to invest in securities by the Illinois Public Community College Act and the Investment of Public Funds Act. Board of Trustees' policy also provides guidance regarding the designation of depositories, collateralization, and investments, which provide "the highest available return on investment consistent with safety." The fiduciary responsibility for said investments is entrusted to the Heartland Community College Board of Trustees. The College Treasurer is the Vice President of Business Services and is appointed by the Board.

The College utilizes a pooled approach to cash management, which allows for maximum investment of idle funds. Throughout the year, funds that are available for short- and long-range investment are invested in money market accounts, certificates of deposit, treasury bills or other financial instruments as defined in Board policy. A Sweep account, established in conjunction with the operating cash account, is used to maximize the investment of temporarily idle funds on a daily basis.

As of June 30, 2008, the College held \$71,653,038 in cash and investments. This balance decreased from the previous year's total of \$79,512,071 due primarily to the expenditure of funds for construction-in-progress. For fiscal year 2008, the College's investments generated \$3,466,130 in investment income compared to \$1,708,638 in fiscal year 2007.

DEBT ADMINISTRATION

The College had general bonded debt of \$77,820,000 as of June 30, 2008 and \$79,115,000 as of June 30, 2007. The decrease from 2007 to 2008 is the result of four factors: (1) retirement of \$59,000,000 in debt certificates; (2) issuance of \$72,805,000 in general obligation bonds; (3) advance refunding of \$13,410,000 in previous general obligation bond issues; and (4) bond principal payments totaling \$1,690,000 during 2008. The majority of the new bond proceeds (approximately \$59,000,000) will be used for construction of buildings, site work, and furnishings and equipment for the permanent campus development construction project. The Moody's rating on this July 2007 issue was A1.

According to State of Illinois statute, the College is subject to a limit on bonded debt equal to 2.875% of assessed valuation. The 2007 assessed valuation of \$3,764,474,185 results in a legal debt limit of \$108,228,633. Other useful indicators of debt position are the ratios of general obligation debt to assessed valuation and debt per capita. For the fiscal years 2004-2008, these indicators compare as follows:

<u>Fiscal Year</u>	<u>General Obligation Debt</u>	<u>Debt/EAV</u>	<u>General Obligation Debt Per Capita</u>
2008	\$77,820,000	2.1%	\$383.01
2007	\$79,115,000	2.2%	\$396.38
2006	\$22,165,000	.7%	\$111.05
2005	\$20,745,000	.6%	\$103.94
2004	\$21,425,000	.7%	\$109.46

PROSPECTS FOR THE FUTURE

The College's financial outlook for the future continues to be positive. There are certainly challenges facing the institution, including continued uncertain levels of future State funding and the management of enrollment projections and physical facilities growth under these circumstances. A long-term financial reserves plan is regularly updated and reviewed with the Board of Trustees to ensure timely and appropriate accumulation of net assets for future capital projects. A five-year operating budget outlook is also updated and reviewed regularly by College management.

Contingencies are also budgeted annually to provide for the uncertainties associated with State funding, enrollment, capital funding requirements, faculty contract negotiations, utility and other market-driven costs and to fund reserve plans. Likewise, alternative means of funding our needs, such as through leasing and bonding, will continue to be evaluated. The College also has the capacity to increase tuition rates, since the current rate is well below the State average and any State limits.

AWARDS AND ACKNOWLEDGEMENTS

Independent Audit

The Illinois Public Community College Act requires an annual audit by independent certified public accountants. The College's Board of Trustees selected the public accounting firm of McGladrey & Pullen, LLP. The requirement has been satisfied and the auditor's opinion is unqualified. The auditor's report on the financial statements and schedules is included in the financial section of this report.

Awards for Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Heartland Community College for its CAFR for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

Heartland Community College has received the Certificate of Achievement annually since 1998. We believe our current report for the fiscal year ended June 30, 2008 continues to meet the stringent program requirements for the Certificate of Achievement for Excellence in Financial Reporting. The report is being submitted to GFOA to determine its eligibility for another certificate.

Acknowledgments

We thank the Board of Trustees for their continued interest and support in planning and conducting the financial operations of the College in a highly responsible and accountable manner and with fiscal integrity. We also thank the staff of the Business Services Division and our external auditors, McGladrey & Pullen LLP, for their contributions and assistance in preparing this report.

Respectfully submitted,

/s/ Robert D. Widmer

Robert D. Widmer
Vice President of Business Services

HEARTLAND COMMUNITY COLLEGE
COMMUNITY COLLEGE DISTRICT #540

PRINCIPAL OFFICIALS

Board of Trustees

	<u>Position</u>	<u>Term Expires</u>
Harry L. Dunham	Chair	2013
Gregg Chadwick	Vice-Chair	2011
Larry Littell	Secretary	2013
Cindy Brand	Trustee	2009
Christina Rogers	Trustee	2009
Jim White	Trustee	2011
Steve Graham	Trustee	2013
Robert M. Smith III	Student Trustee	2009

Officers of the College

Jonathan M. Astroth	President
Helen McKay Katz	Vice President, Institutional Advancement
Allan Saaf	Vice President, Instruction
Mary Beth Trakinat	Vice President, Continuing Education
Robert D. Widmer	Vice President, Business Services and Treasurer

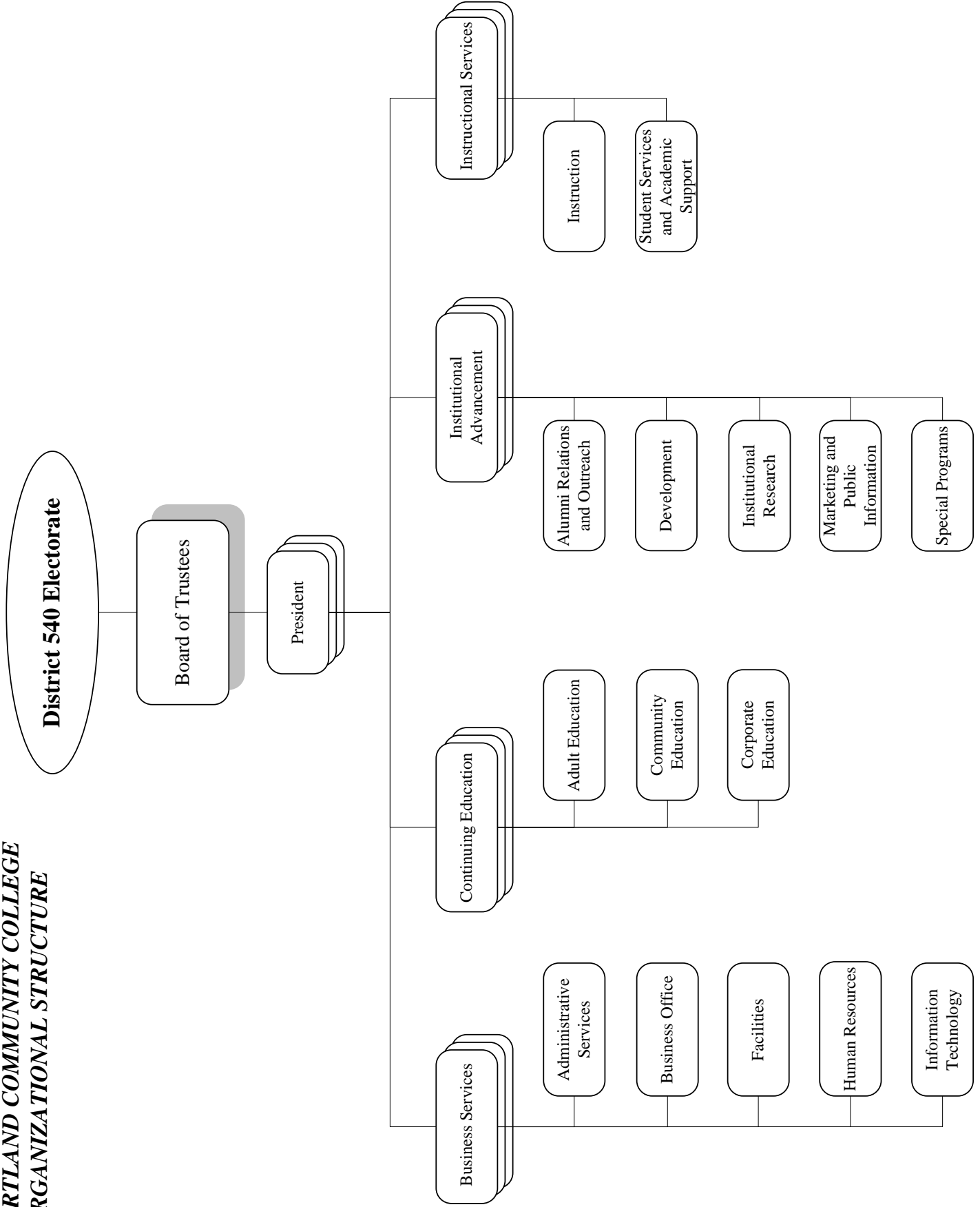
Officials Issuing Report

Robert D. Widmer	Vice President, Business Services and Treasurer
Sue A. Gilpin	Controller
Sharon M. McDonald	Accountant

Department Issuing Report

Business Services Division

**HEARTLAND COMMUNITY COLLEGE
ORGANIZATIONAL STRUCTURE**



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Heartland Community
College - District #540
Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Oliver S. Cox

President

Jeffrey R. Emer

Executive Director

Financial Section

McGladrey & Pullen

Certified Public Accountants

Independent Auditors' Report

The Board of Trustees
Heartland Community College
Community College District #540
Normal, Illinois

We have audited the accompanying basic financial statements of Heartland Community College District #540 (District) as of and for the year ended June 30, 2008 as listed in the table of contents. These basic financial statements are the responsibility of the District'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 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Heartland Community College District #540 as of June 30, 2008 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2008 on our consideration of the District'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 accompanying Management's Discussion and Analysis on pages 3 through 10 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 an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards presented as required by the U.S. Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations and the Introductory section* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards 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.

The Introductory section was not subjected to the audit procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

McGladrey & Pullen, LLP

Springfield, Illinois
October 15, 2008

Management's Discussion and Analysis

This section of Heartland Community College's (District or College) Comprehensive Annual Financial Report presents management's discussion and analysis of the College's financial activity during the fiscal years ended June 30, 2008, and June 30, 2007. Since this discussion and analysis is designed to focus on current activities, resulting changes and currently known facts, please read it in conjunction with the transmittal letter, the College's basic financial statements and the notes to the basic financial statements. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

The financial statements focus on the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total.

The focus of the Statement of Net Assets is designed to be similar to bottom line results for the College. This Statement combines and consolidates current financial resources (short-term spendable resources) with capital assets. Net assets, the difference between the College's assets and liabilities, are one way to measure the College's financial health or position. All assets and liabilities associated with the operation of the College are included in the Statement of Net 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, student tuition and fees, and by other governmental 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.

Financial Highlights

Total assets exceeded total liabilities (net assets) by \$42.6 million as of June 30, 2008. Of this amount, \$32.0 million is invested in capital assets (net of related debt), \$0.2 million is restricted for capital projects, \$4.7 million is restricted for other purposes, and \$5.7 million is unrestricted and available to meet current and future obligations of the College.

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees (net of scholarship allowances), (2) auxiliary enterprise revenues, and (3) other educational sales and service fees. Total operating revenues for the year ended June 30, 2008 were \$8,358,361. Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as (1) property taxes, (2) State grants and contracts, (3) Federal and local grants and contracts, (4) investment income, and (5) the State Universities Retirement System contribution provided by the State of Illinois. Total net non-operating revenues for the year ended June 30, 2008 were \$24,229,895. Capital contributions from the State of Illinois for the year ended June 30, 2008 were \$698,153.

Operating expenses are those expenses for the purpose of providing educational and operational activities of the College. All expenses not meeting this definition, such as interest expense, are reported as non-operating expenses. The College's operating expenses are funded primarily through non-operating revenue. Total operating expenses for the year ended June 30, 2008 were \$31,330,721.

The difference between total operating revenues of \$8,358,361 and total operating expenses of \$31,330,721 produced an operating loss of (\$22,972,360) for the year ended June 30, 2008. Net non-operating revenue of \$24,229,895 offset this loss and resulted in an income before capital contributions of \$1,257,535. With capital contributions of \$698,153, the overall increase in net assets was \$1,955,688. Following are comparative analyses of net assets and operating results for the fiscal years 2008, 2007 and 2006.

Financial Analysis of the College as a Whole

	Net Assets as of June 30, (in thousands)						
	<u>2008</u>	<u>2007</u>	Increase (Decrease) <u>2008-2007</u>	Percent <u>Change</u>	<u>2006</u>	Increase (Decrease) <u>2007-2006</u>	Percent <u>Change</u>
Current assets	\$48,782	\$87,623	(\$38,841)	-44.3%	\$21,757	\$65,866	302.7%
Non-current assets							
Debt issuance costs, net	375	0	375	N/A	0	0	N/A
Long-term investments	41,898	4,748	37,150	782.4%	13,222	(8,474)	-64.1%
Capital assets, net of depreciation	58,709	50,778	7,931	15.6%	42,247	8,531	20.2%
Total assets	<u>\$149,764</u>	<u>\$143,149</u>	<u>\$6,615</u>	<u>4.6%</u>	<u>\$77,226</u>	<u>\$65,923</u>	<u>85.4%</u>
Current liabilities	29,270	27,596	1,674	6.1%	20,065	7,531	37.5%
Non-current liabilities	77,925	74,939	2,986	4.0%	20,419	54,520	267.0%
Total liabilities	<u>107,195</u>	<u>102,535</u>	<u>4,660</u>	<u>4.5%</u>	<u>40,484</u>	<u>62,051</u>	<u>153.3%</u>
Net assets							
Invested in capital assets, net of related debt	32,008	33,414	(1,406)	-4.2%	20,061	13,353	66.6%
Unrestricted	5,692	572	5,120	895.3%	2,473	(1,901)	-76.9%
Restricted	4,869	6,628	(1,759)	-26.5%	14,208	(7,580)	-53.4%
Total net assets	<u>42,569</u>	<u>40,614</u>	<u>1,955</u>	<u>4.8%</u>	<u>36,742</u>	<u>3,872</u>	<u>10.5%</u>
Total liabilities and net assets	<u>\$149,764</u>	<u>\$143,149</u>	<u>\$6,615</u>	<u>4.6%</u>	<u>\$77,226</u>	<u>\$65,923</u>	<u>85.4%</u>

This schedule was prepared from the College's statement of net assets which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Net assets invested in capital assets, net of related debt, consists of capital assets net of accumulated depreciation and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. The principal liabilities for capital assets are the bonds and debt certificates used to provide funding for the campus and equipment.

Fiscal Year 2008 Compared to 2007

The College's net assets at June 30, 2008 were \$42,569,359 and at June 30, 2007 were \$40,613,671, an increase of \$1,955,688 or 4.8%. The College had a current ratio of 1.67 times at June 30, 2008, as compared to 3.18 at June 30, 2007. The current ratio is total current assets divided by total current liabilities. This means that for every dollar of current liabilities the College had \$1.67 in current assets. This ratio is one indicator of the College's ability to pay its debts as they become due.

Current assets have decreased by \$38,841,462 or 44.3% and current liabilities have increased by \$1,674,250 or 6.1% due to the combined effects of various factors. Three primary factors for the decrease in current assets were: (1) the shift of more than \$37.2 million from short term investments to long-term investments reflecting the long-term laddering of investment maturities to match the construction project payment schedule completed during fiscal year 2008; (2) the liquidation of more than \$7.8 million in short term investments for construction-in-progress capital asset expenditures; and offset by (3) increases of \$4.8 million and .9 million in property taxes receivable and student tuition receivable, respectively, at year end. Four primary factors for the increase in current liabilities were: (1) an increase of more than \$2.7 million in accrued interest on the new bonds issued in July; (2) an increase of \$2.2 million in deferred property tax revenue due to a 5.15% increase in property values and the overall total levy increase; (3) an increase of \$1.2 million in accounts and contracts payable due to the campus construction project; and then offset against (4) a decrease of \$4.2 million in the current portion of bonds payable and debt certificates due to the advance refunding of several prior bond issues; and (5) a reclassification of \$1.5 million in deposit from bonds to non-current bonds payable once bonds were issued in July.

The shift in current assets towards more capital assets and less short-term investments reflects the capital spending from the investment portfolio during fiscal year 2008. Capital assets, net of depreciation, increased by \$7.9 million or 15.6% over 2007 balances. This was the result of construction in progress on the campus development construction project and completion of the Workforce Development Center building. Total non-current liabilities only increased by \$2,987,619 or 4.0%, but the makeup shifted from debt certificates to bonds payable to reflect retirement of the debt certificates by issuance of the bonds.

Fiscal Year 2007 Compared to 2006

The College's net assets at June 30, 2007 were \$40,613,671 and at June 30, 2006 were \$36,742,140, an increase of \$3,871,531 or 10.5%. The College had a current ratio of 3.18 times at June 30, 2007, as compared to 1.08 at June 30, 2006. The current ratio is total current assets divided by total current liabilities. This means that for every dollar of current liabilities the College had \$3.18 in current assets. This ratio is one indicator of the College's ability to pay its debts as they become due.

Current assets increased by \$65,865,970 or 302.7% and current liabilities increased by \$7,531,766 or 37.5% due to the combined effects of various factors. Three primary factors were: (1) the issuance of \$59,000,000 in general obligation debt certificates and receipt of those funds during April 2007; (2) the 3.8% increase in the property tax rate from 39.20 cents for fiscal year 2006 to 40.68 cents for fiscal year 2007; and (3) receipt of a good faith deposit on bonds of \$1,456,500 in June 2007. Short term investments increased by \$62,240,931 and accrued interest increased by \$553,761 primarily as a result of the debt certificate and bond deposit proceeds. Current liabilities also increased due to the \$1,730,000 current portion of debt certificate liabilities and the \$1,456,500 deposit for bonds. The property tax increase impacts cash and property taxes receivable (current assets) and deferred property taxes (current liabilities.)

The shift in non-current assets towards more capital assets and less long-term investments reflects the capital spending from the investment portfolio during fiscal year 2007. Capital assets, net of depreciation, increased by \$8,530,607 or 20.2% over 2006 balances. This was the result of additional construction in progress on the College's Workforce Development Center building and Phase II Campus Master Plan capitalized expenditures, both totaling \$9,068,200. The increase in furniture and equipment totaling \$761,779 was due to purchases to equip the new Workforce Development Center building.

Operating Results for the Years Ended							
June 30							
(in thousands)							
	<u>2008</u>	<u>2007</u>	Increase (Decrease) <u>2008-2007</u>	Percent <u>Change</u>	<u>2006</u>	Increase (Decrease) <u>2007-2006</u>	Percent <u>Change</u>
Operating revenues							
Net tuition and fees	\$5,757	\$5,033	\$724	14.4%	\$4,035	\$998	24.7%
Other	2,601	1,882	719	38.2%	1,554	328	21.1%
Total operating revenues	<u>8,358</u>	<u>6,915</u>	<u>1,443</u>	<u>20.9%</u>	<u>5,589</u>	<u>1,326</u>	<u>23.7%</u>
Less operating expenses	<u>31,331</u>	<u>30,371</u>	<u>960</u>	<u>3.2%</u>	<u>25,152</u>	<u>5,219</u>	<u>20.7%</u>
Operating (loss)	<u>(22,973)</u>	<u>(23,456)</u>	<u>483</u>	<u>-2.1%</u>	<u>(19,563)</u>	<u>(3,893)</u>	<u>19.9%</u>
Non-operating revenues (expenses)							
Property taxes	14,564	13,401	1,163	8.7%	12,585	816	6.5%
SURS contribution by State	1,310	951	359	37.7%	642	309	48.1%
State grants and contracts	4,628	4,507	121	2.7%	4,419	88	2.0%
Federal grants and contracts	3,462	3,482	(20)	-0.6%	3,382	100	3.0%
Investment income	3,466	1,709	1,757	102.8%	784	925	118.0%
Interest expense	(3,218)	(1,459)	(1,759)	120.6%	(917)	(542)	59.1%
Gain on early bond refunds	41	0	41	NA	0	0	NA
Amortization of debt issuance costs	(23)	0	(23)	NA	0	0	NA
Total net non-operating revenue	<u>24,230</u>	<u>22,591</u>	<u>1,639</u>	<u>7.3%</u>	<u>20,895</u>	<u>1,696</u>	<u>8.1%</u>

Capital contributions	698	4,737	(4,039)	-85.3%	8,881	(4,144)	-46.7%
Change in net assets	1,955	3,872	(1,917)	-49.5%	10,213	(6,341)	-62.1%
Net assets, beginning of year	40,614	36,742	3,872	10.5%	26,529	10,213	38.5%
Net assets, end of year	<u>\$42,569</u>	<u>\$40,614</u>	<u>\$1,955</u>	<u>4.8%</u>	<u>\$36,742</u>	<u>\$3,872</u>	<u>10.5%</u>
Total revenues	<u>\$35,829</u>	<u>\$30,965</u>	<u>\$4,864</u>	<u>15.7%</u>	<u>\$27,401</u>	<u>\$3,564</u>	<u>13.0%</u>
Total capital contributions	<u>\$698</u>	<u>\$4,737</u>	<u>(\$4,039)</u>	<u>-85.3%</u>	<u>\$8,881</u>	<u>(4,144)</u>	<u>-46.7%</u>
Total expenses	<u>\$34,572</u>	<u>\$31,830</u>	<u>\$2,742</u>	<u>8.6%</u>	<u>\$26,069</u>	<u>\$5,761</u>	<u>22.1%</u>

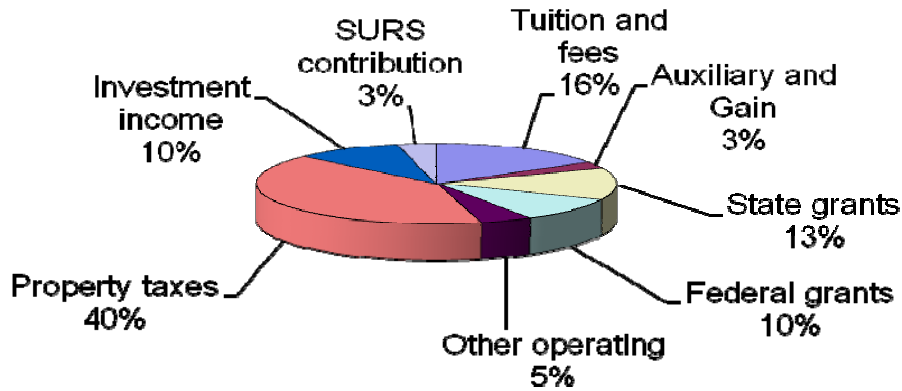
Fiscal Year 2008 Revenues Compared to 2007

Student tuition and fees, net of scholarship allowances, increased by \$723,756 or 14.4% due to an increase of 10.0% in the tuition and fees rate, combined with modest enrollment increases in credit hours and headcounts during fiscal year 2008. Other operating revenues, consisting of auxiliary and other miscellaneous revenues, increased by 38.2%. Auxiliary revenues increased by \$530,321 or 138.5%. This increase is due to the first year of a student athletics program and an English language program for Chinese students. Other operating revenues increased by \$188,935 or 12.6%. This increase can be largely attributed to continued growth in the College's continuing education programs. Property tax revenues increased by \$1,162,467 or 8.7% due to a combination of factors. The District's tax base increased in assessed valuation by 5.15%. In addition, the equity tax of \$1,120,565 levied for 2008 was 24.1% higher than in 2007 and the bond and interest fund levy increased by \$1,813,189 or 97.6% over the 2007 levy. Interest expense increased by \$1,758,815 or 120.6% due to the interest accrued on the \$72.8 million in bonds issued during July 2007. Investment income increased by 102.8% due to larger balances in long-term investments throughout the year and to strong interest rates during most of fiscal year 2008. The 37.7% increase in SURS contribution non-operating revenue and operating expenses is due to increased pension funding by the State of Illinois. The State of Illinois contributed capital of \$698,153 towards the completion of the new Workforce Development Center building. This contributed significantly to the overall increase in net assets of \$1,955,688. For 2008, total revenues were \$35.8 million, an increase of 15.7% over 2007. Total expenses were \$34.6 million, an increase of 8.6% over 2007.

Fiscal Year 2007 Revenues Compared to 2006

Student tuition and fees increased by \$998,186 or 24.7% due to an increase of 11.1% in the tuition and fees rate, combined with modest enrollment increases in credit hours and headcounts during fiscal year 2007. Other operating revenues increased by \$334,791 or 28.8%. This increase can be largely attributed to continued growth in the College's continuing education programs. Property tax revenues increased by 6.5% due to a combination of factors. The District's tax base increased in assessed valuation by 5.10%. In addition, the equity tax of \$902,674 levied for 2007 was 16.2% higher than in 2006 and the bond and interest fund levy increased by 8.7% over the 2006 levy. Investment income increased by 117.9% due to larger balances available for investing (including debt certificate funds during the last quarter of fiscal year 2007) and continued market increases in interest rates during 2007. The 48% increase in SURS contribution non-operating revenue and operating expenses is due to increased pension funding by the State of Illinois. The State of Illinois contributed capital of \$4,736,909 towards the construction in progress on the new Workforce Development Center building. This contributed significantly to the overall increase in net assets of \$3,871,531.

Following is a graphic illustration of revenues by source for fiscal year 2008:



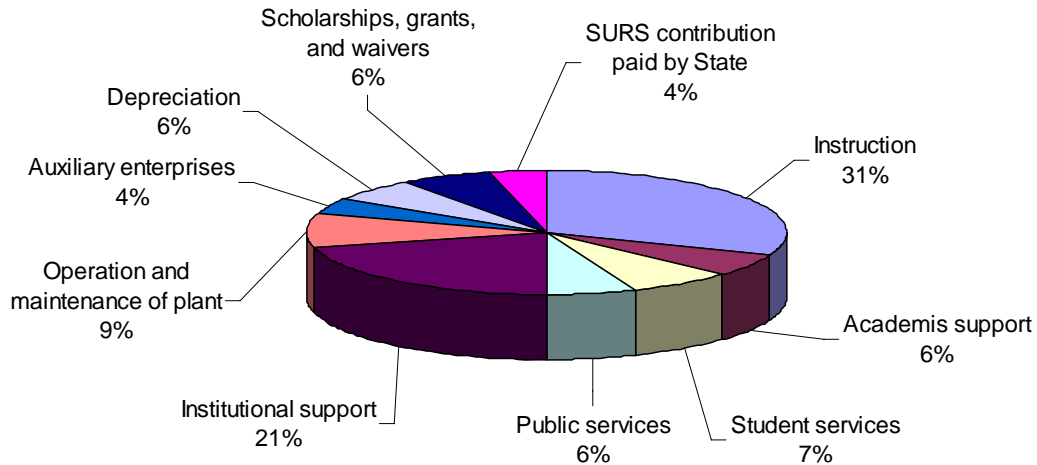
The pie chart above shows all revenue from both operating and nonoperating. The chart shows that local property taxes accounted for the largest percentage of the College's revenue at 40%. The next highest was tuition and fees at 16%. State grants accounted for 13% of the College's revenue and federal grants accounted for 10% during fiscal year 2008. Investment income also contributed 10% of total revenue.

Operating Expenses by Program
For the Years Ended June 30,
(in thousands)

Program	2008	2007	Increase (Decrease) 2008-2007	Percent Change	2006	Increase (Decrease) 2007-2006	Percent Change
Instruction	\$9,669	\$9,204	\$765	8.3%	\$7,915	\$1,289	16.3%
Academic support	1,791	1,360	431	31.7%	1,155	205	17.7%
Student services	2,112	1,904	208	10.9%	1,603	301	18.8%
Public service	1,763	1,493	270	18.1%	1,589	(96)	-6.0%
Institutional support	6,688	8,615	(1,927)	-22.4%	6,432	2,183	33.9%
Operation and maintenance of plant	2,898	2,827	71	2.5%	2,472	355	14.4%
Auxiliary enterprises	1,283	712	571	80.2%	411	301	73.2%
Depreciation	1,813	1,310	503	38.4%	1,217	93	7.6%
Scholarships, grants and waivers	2,004	1,995	9	0.5%	1,716	279	16.3%
SURS contribution paid by State	1,310	951	359	37.7%	642	309	48.1%
Total	\$31,331	\$30,371	\$960	3.2%	\$25,152	\$5,219	20.7%

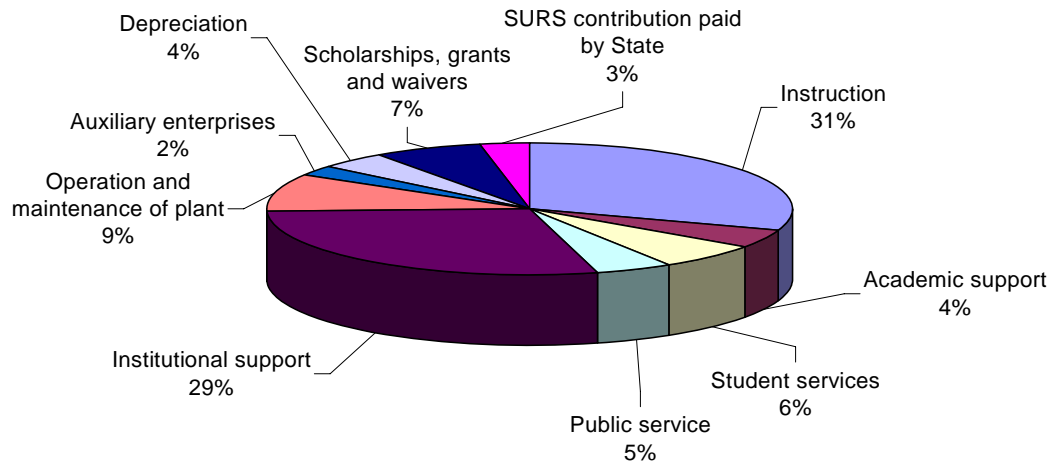
The pie chart following shows the operating expenses by program for fiscal year 2008 as a percentage of total expenses. Direct services to students accounted for 60% of total expenses. Direct services to students include: Instruction at 31%, Academic support at 6%, Student services at 7%, Public service at 6%, Scholarships, grants and waivers at 6%, and Auxiliary enterprises at 4%. Indirect services to students accounted for 40% of total expenses. Indirect services to students include: Operations and maintenance of plant at 9%, Institutional support at 21%, Depreciation at 6% and the SURS contribution at 4%.

Operating Expenses by Program
Fiscal Year 2008



For purposes of comparison, following is a pie chart of the operating expenses by program for fiscal year 2007 as a percentage of total expenses.

Operating Expenses by Program
Fiscal Year 2007



Capital Assets

As of June 30, 2008, the College investment in capital assets totaled \$70.8 million. Capital assets net of accumulated depreciation of \$12.1 million totaled \$58.7 million. The 15.6% increase in net capital assets as of June 30, 2008 is due to the completion of the new Workforce Development Center building and the construction in progress on the Phase II campus development construction plan. Additional information regarding capital assets can be found in Note 4 to the financial statements. Following is an analysis of capital assets.

Capital Assets
For the Years Ended June 30,
(in thousands)

	2008	2007	Increase (Decrease) 2008-2007	Percent Change	2006	Increase (Decrease) 2007-2006	Percent Change
Capital Assets not being depreciated							
Land	\$2,225	\$2,225	\$0	0.0%	\$2,225	\$0	0.0%
Construction-in-Progress	7,835	18,586	(10,751)	-57.8%	9,518	9,068	NA
Capital Assets being depreciated							
Buildings	50,937	31,618	19,319	61.1%	31,618	0	0.0%
Infrastructure	4,235	3,681	554	15.1%	3,681	0	0.0%
Furniture and equipment	5,523	4,906	617	12.6%	4,144	762	18.4%
Total	70,755	61,016	9,739	16.0%	51,186	9,830	19.2%
Less Accumulated Depreciation	(12,046)	(10,238)	1,808	17.7%	(8,939)	1,299	14.5%
Net Capital Assets	\$58,709	\$50,778	\$7,931	15.6%	\$42,247	\$8,531	20.2%

Debt Administration

In July 2007, the College issued \$72,805,000 in general obligation (funding/refunding) bonds. The \$59,000,000 in general obligation debt certificates, issued in April of 2007, was retired using these bond proceeds. The College advance refunded \$13,410,000 in prior years' bond issues using the balance of the bond proceeds. The College also paid \$1,690,000 in bond principal and \$11,309 in principal on capital leases during fiscal year 2008. Compensated absences for employee vacations increased by a net amount of \$108,000 or 17.4%. Additional information regarding long-term liabilities can be found in Note 5 to the financial statements. Following is an analysis of long-term liabilities.

Long Term Debt For the Years Ended June 30, (in thousands)							
	2008	2007	Increase (Decrease) 2008-2007	Percent Change	2006	Increase (Decrease) 2007-2006	Percent Change
Long-term debt							
General obligation bonds	\$77,820	\$20,115	\$57,705	286.9%	\$22,165	(\$2,050)	-9.2%
General obligation debt certificates	0	59,000	(59,000)	NA	0	\$59,000	NA
Compensated absences	727	619	108	17.4%	591	\$28	4.7%
Capital lease obligations	4	15	(11)	-73.3%	21	(\$6)	-28.6%
Total	<u>\$78,551</u>	<u>\$79,749</u>	<u>(\$1,198)</u>	<u>-1.5%</u>	<u>\$22,777</u>	<u>\$56,972</u>	<u>250.1%</u>

Contacting the College's Financial Management

This financial report is designed to provide the College's Board, State Officials, Legislature, patrons, and other interested parties with a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert D. Widmer, Vice President, Business Services and Treasurer. College budgets and audited financial reports are also available on the College website at www.heartland.edu

Other

Management is not aware of any other currently known facts, decisions, or conditions that would have a significant effect on the College's financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets).

Heartland Community College
Community College District #540

Statement of Financial Position
June 30, 2008

Assets	
Current Assets	
Cash and cash equivalents	\$ 29,454,349
Short-term investments	300,000
Accounts receivable:	
Property taxes	13,472,656
Student tuition and fees, net of allowance of \$200,000	3,204,183
Government	406,222
Other receivables	323,882
Accrued interest receivable	813,180
Prepaid items	583,865
Debt issuance costs, net	23,431
Other current assets	200,000
Total current assets	<u>48,781,768</u>
Non-current assets	
Long-term investments	41,898,689
Debt issuance costs, net	374,903
Capital Assets, not being depreciated	10,060,733
Capital assets, net	48,648,186
Total non-current assets	<u>100,982,511</u>
Total assets	<u>149,764,279</u>
Liabilities	
Current Liabilities	
Accounts payable	3,115,356
Contracts Payable	228,562
Accrued liabilities	920,084
Accrued interest expense	3,436,411
Deferred revenue:	
Property taxes	16,726,407
Student tuition and fees	3,799,830
Other	417,482
Accrued compensated absences, current portion	363,350
Bonds payable, current portion	260,000
Capital lease obligations, current portion	2,925
Total current liabilities	<u>29,270,407</u>
Non-current liabilities	
Accrued compensated absences, non-current portion	363,350
Bonds payable, non-current portion	77,560,000
Capital lease obligations, non-current portion	1,163
Total non-current liabilities	<u>77,924,513</u>
Total liabilities	<u>107,194,920</u>
Net Assets	
Invested in capital assets, net of related debt	32,007,788
Restricted for:	
Capital projects	189,405
Other	4,679,466
Unrestricted	5,692,700
Total net assets	<u>\$ 42,569,359</u>

See Notes to Basic Financial Statements.

Heartland Community College
Community College District #540

Statement of Activities
Year ended June 30, 2008

Revenues:	
Operating revenues	
Student tuition and fees, net of scholarship allowance of \$2,685,597	\$ 5,757,064
Auxiliary enterprises revenue	913,262
Other operating revenues	<u>1,688,035</u>
Total operating revenues	<u>8,358,361</u>
Expenses:	
Operating expenses	
Institutional support	6,687,070
Instruction	9,669,362
Scholarships, student grants and waivers	2,003,966
Operations and maintenance	2,898,289
Student services	2,112,189
Academic support	1,790,851
Public services	1,763,109
Depreciation	1,812,825
SURS contribution paid by state	1,309,964
Auxiliary enterprises	<u>1,283,096</u>
Total operating expenses	<u>31,330,721</u>
Operating loss	<u>(22,972,360)</u>
Non-operating revenues (expenses):	
Property taxes	14,563,671
State grants and contracts	4,627,970
Federal grants and contracts	3,461,924
Interest expense	(3,217,685)
Investment income	3,466,130
Amortization of debt issuance costs	(23,431)
Gain on bond refunding	41,352
SURS contribution provided by state	<u>1,309,964</u>
Total non-operating revenues, net	<u>24,229,895</u>
Income before capital contributions	1,257,535
Capital contributions	<u>698,153</u>
Change in net assets	1,955,688
Net assets-beginning of year	<u>40,613,671</u>
Net assets-end of year	<u><u>\$ 42,569,359</u></u>

See Notes to Basic Financial Statements.

Heartland Community College
Community College District #540

Statement of Cash Flows
Year ended June 30, 2008

Cash Flows from Operating Activities	
Tuition and fees	\$ 8,417,445
Payments to suppliers	(17,406,591)
Payments to employees	(12,268,226)
Auxiliary enterprise charges	913,262
Other	1,684,144
	<u>1,684,144</u>
Net cash used in operating activities	(18,659,966)
Cash Flows from Noncapital Financing Activities	
Property taxes	11,918,433
State, federal and local grants and contracts	8,132,511
	<u>8,132,511</u>
Net cash provided by noncapital financing activities	20,050,944
Cash flows from Capital and Related Financing Activities	
Purchases of capital assets	(9,067,512)
Principal payments on bonds payable	(15,100,000)
Principal payments on debt certificate	(59,000,000)
Interest payments on long-term debt	(500,168)
Proceeds from bonds	71,348,500
Principal payments on other long-term obligations	(11,309)
Payment of debt issuance costs	(421,765)
	<u>(421,765)</u>
Net cash used in capital and related financing activities	(12,752,254)
Cash Flows from Investing Activities	
Interest received	3,502,243
Proceeds from maturities of investments	133,981,219
Purchases of investments	(106,631,936)
	<u>(106,631,936)</u>
Net cash provided by investing activities	30,851,526
Net increase in cash and cash equivalents	19,490,250
Cash and cash equivalents at beginning of year	9,964,099
	<u>9,964,099</u>
Cash and cash equivalents at end of year	<u>\$ 29,454,349</u>
Supplemental Disclosure of Cash Flow Information	
Cash payments for interest	<u>\$ 924,011</u>

(Continued)

Reconciliation of Operating Loss to Net Cash (Used In)	
Operating Activities	
Operating loss	\$ (22,972,360)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	1,812,825
SURS contribution paid by state	1,309,964
Loss on sale of equipment	21,771
(Increase) in assets:	
Receivables	(1,067,401)
Prepaid items	(106,658)
Other	(200,000)
Increase in liabilities:	
Accounts payable	951,449
Contracts payable	228,562
Accrued liabilities	215,999
Deferred tuition and fees	907,368
Deferred other revenue	130,921
Accrued compensated absences	107,594
	<u>107,594</u>
Net cash used in operating activities	<u><u>\$ (18,659,966)</u></u>
Noncash, capital and related financing activities	
Capital contribution received	<u><u>\$ 698,153</u></u>

See Notes to Basic Financial Statements.

Notes to Basic Financial Statements

Note 1. Organization and Significant Accounting Policies

The financial statements are based on accounts prescribed or permitted by the *Fiscal Management Manual* of the Illinois Community College Board. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as set forth in GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The following is a summary of the more significant policies:

Organization:

Heartland Community College, Community College District #540 (District or College) is a public community college serving portions of DeWitt, Ford, Livingston, Logan, McLean, and Tazewell Counties. It was established in 1990 and is governed by a board of trustees elected by the residents of the District. The Board is responsible for establishing the policies and procedures of the District.

Revenues are substantially generated as a result of taxes assessed and allocated to the District and grants received from other state and federal governmental agencies. The District's revenues are, therefore, primarily dependent upon the availability of funds at the state and federal level and the economy within its territorial boundaries. Industries within the territorial area are primarily manufacturing, insurance, retail and agricultural.

Significant Accounting Policies:

Reporting entity: In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision whether to include a potential component unit was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. A component unit is a legally separate entity that meets any one of the following requirements.

- The primary government appoints the voting majority of the board of the potential component unit and is able to impose its will on the entity and/or is in a relationship of financial benefit or burden with the entity.
- The potential component unit is fiscally dependent upon the primary government; or
- The financial statements of the primary government would be misleading if data from the potential component unit were not included.

There are additional criteria to be considered in determining the nature and significance of a relationship with the primary government. These criteria include:

- The economic resources received or held by an organization are entirely or almost entirely for the direct benefit of the District,
- The District is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization, and
- The economic resources received or held by an organization that the District is entitled to, or has the ability to otherwise access, are significant to the District.

Based upon the application of these criteria, the District has no known component units and is not considered a component unit of another government unit.

Notes to Basic Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

The District is affiliated with the Heartland Community College Foundation (Foundation). The Foundation assists the District and its students in the form of scholarships and grants from the Foundation's fundraising efforts. Total student scholarships awarded for the year ended June 30, 2008 were \$66,688. Under presently applicable GASB standards the Foundation is not a component unit, as the Foundation's governing Board of Directors is not appointed by the District's Board of Trustees and the Foundation is solely responsible for its fiscal matters. In addition, the economic resources that the District is entitled to or has the ability to access from the Foundation are insignificant to the District as a whole.

Basis of accounting: For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Accordingly, the District'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-agency transactions have been eliminated.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes; federal, state, and local grants; State appropriations; and other contributions. On the accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance. Revenue from grants, State Appropriations, and other contributions 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 year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

Investments: Investment securities are stated at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, except money market investments with maturities of one year or less and certificates of deposit which are stated at cost, which approximates fair value. Fair values for investment securities are based on quoted market prices. Income is recognized on the accrual basis of accounting. Changes in the carrying value of investments, resulting in unrealized gains or losses are reported as a component of investment income in the statement of activities. The types of investments allowed are regulated by Illinois state laws and include municipal bonds, U.S. Government or Illinois obligations, insured deposits or other investments of state or national banks, Federal National Mortgage Association obligations, Illinois Funds, and agreements collateralized by securities or mortgages in an amount at least equal to the market value of the funds deposited.

Summer school revenues and expenditures: Summer session revenues and expenditures are reported in the fiscal year in which the program is predominantly conducted. Revenue received for summer school prior to June 30 is classified as deferred revenue. Expenditures incurred prior to June 30 are reported as prepaid items.

Property taxes: The District's property taxes are levied each calendar year on all taxable real property located in the District. Property taxes are collected by the County Collector and are submitted to the County Treasurer, who remits to the units their respective shares of the collections. Taxes levied in 2007 become due and payable in two installments (June and September 2008). In accordance with Board resolution, property taxes extended for the 2007 tax year and collected in 2008 are recorded as revenue in fiscal year 2009. Uncollected taxes are sold by the County Collector in order that those taxes can be distributed to respective taxing bodies. Final distribution on the current year levy is made by the County Collector's office at a date after the tax sale, usually no later than during the first quarter of the following year.

Notes to Basic Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Capital assets: Capital assets include property, plant, equipment and infrastructure assets, such as roads and sidewalks, and are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property, the District's capitalization policy includes all items with an initial unit cost of \$5,000 or more and an estimated useful life in excess of one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and infrastructure	40
Land improvements	20
Furniture and equipment	3 - 10

Risk management: The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance coverage covering each of these risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Deferred tuition and grant revenues: Deferred revenues include amount received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Noncurrent liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, debt certificate and capital lease obligations with contractual maturities greater than one year and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

Scholarship discounts and allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of activities. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District, and the amount that is paid by students and/or third parties making payments on the student's behalf.

On-behalf payments for fringe benefits and salaries: The District recognizes as revenues and expenses contributions made by the State of Illinois to the State Universities Retirement System on behalf of the District's employees. In fiscal year 2008 the State made contributions of \$1,309,964.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

Notes to Basic Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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

- Invested in capital assets, net of related debt: This represents the District's total investment in capital assets, net of accumulated depreciation and outstanding debt incurred to acquire, construct, or improve those assets. Net assets, net of related debt, excludes unspent debt proceeds. As of June 30, 2008 the District has \$51,199,218 of unspent bond proceeds.
- Restricted net assets: This includes resources that the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources when they are needed.
- Unrestricted: 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 District and may be used at the discretion of the governing board to meet current expenses for any purpose.

Classification of revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, and (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances. Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as (1) local property taxes, (2) state appropriations, (3) most Federal, state, and local grants and contracts and Federal appropriations.

Classification of expenses: Operating expenses include activities that have the characteristics of exchange transactions, such as (1) salaries, (2) scholarships, (3) operations and maintenance, (4) depreciation, and (5) expenses of auxiliary enterprises. Non-operating expenses include activities that have the characteristics of non-exchange transactions, such as interest expense.

Federal financial assistance programs: The College participates in federally funded Pell Grants, Academic Competitiveness Grant, SEOG Grants, Federal Work-Study, Student Support Services and other educational programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133 *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

Accounting pronouncements: The District is first applying all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following: all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB Pronouncements.

Heartland Community College
Community College District #540

Notes to Basic Financial Statements

Note 2. Deposits and Investments

Deposits:

At June 30, 2008 the District's deposits had the following balances:

Cash and cash equivalents	\$ 29,454,349
Investments-certificates of deposit	25,008,711
	<u>54,463,060</u>
Less: Illinois Funds reclassified as investments	<u>(2,368,712)</u>
Carrying amount of deposits	<u>\$ 52,094,348</u>

Investments:

At June 30, 2008, the District's investment balances were as follows:

	Fair Market Value	Less Than 6 Months	6 - 12 Months	1 - 3 Years	Standard & Poor's Rating
Illinois Funds	<u>\$ 2,368,712</u>	<u>\$ 2,368,712</u>	<u>\$ -</u>	<u>\$ -</u>	AAAm
U.S. Government Securities	<u>\$ 17,189,978</u>	<u>\$ 17,189,978</u>	<u>\$ -</u>	<u>\$ -</u>	

Notes to Basic Financial Statements

Note 2. Deposits and Investments (Continued)

Credit risk: The Board of Trustees has authorized the District to invest funds in accordance with the Illinois Community College Act and the Investment of Public Funds Act with the exception that investments are not permitted in short-term obligations of U.S. corporations.

Custodial credit risk: Investments and deposits held by a financial institution which are in excess of \$100,000 are permitted if pledged securities are obtained to fully collateralize the investment and deposits and, in addition, the financial institution must maintain a capital to asset ratio of at least 8 percent. All of the District's investments and deposits are held in the District's name and are not subject to creditors of the custodial institution.

Concentration of credit risk: The District may be invested in a single institution so long as such funds do not exceed 30 percent of the institution's capital structure.

Interest rate risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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 District's investment in the funds is the same as the value of the pool shares. The Pool is audited annually by an outside independent auditor and copies of the report are distributed to participants. The District's investments in the Illinois funds are not required to be categorized because these are not securities. The relationship between the District 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 pool 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 provision of the Illinois Public Investment Act, 30 ILCS 235.

Note 3. Property Taxes

Property taxes are recorded as deferred revenue in the year of the levy and are recognized as revenue in the following year when substantially collected for which they are budgeted. Accordingly, at June 30, 2008 the District had \$16,726,407 of deferred property tax revenue.

Heartland Community College
Community College District #540

Notes to Basic Financial Statements

Note 4. Capital Assets

The following tables present the changes in the various capital asset categories for fiscal year 2008.

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets not being depreciated				
Land	\$ 2,225,290	\$ -	\$ -	\$ 2,225,290
Construction-in-progress	18,585,501	7,800,782	(18,550,840)	7,835,443
Total capital assets not being depreciated	20,810,791	7,800,782	(18,550,840)	10,060,733
Capital assets being depreciated				
Furniture and equipment	4,906,205	642,731	(26,125)	5,522,811
Buildings	31,617,923	19,318,873	-	50,936,796
Infrastructure	3,680,853	554,119	-	4,234,972
Total capital assets being depreciated	40,204,981	20,515,723	(26,125)	60,694,579
Less accumulated depreciation for				
Furniture and equipment	3,816,231	387,588	(4,354)	4,199,465
Buildings	5,200,716	1,217,494	-	6,418,210
Infrastructure	1,220,975	207,743	-	1,428,718
Total accumulated depreciation	10,237,922	1,812,825	(4,354)	12,046,393
Net capital assets being depreciated	29,967,059	18,702,898	(21,771)	48,648,186
Net capital assets	\$ 50,777,850	\$ 26,503,680	\$ (18,572,611)	\$ 58,708,919

The construction-in-progress pertains to the College Development Plan, which includes the construction of a receiving and storage building, child development lab, community education center, instructional commons (north), fitness and recreation center and student commons addition. The project is estimated at a total cost of \$56,912,355 and to be completed by Spring 2010. The estimated cost of completion of the contract is approximately \$49,590,000.

Heartland Community College
Community College District #540

Notes to Basic Financial Statements

Note 5. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008, is as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Balance Due Within One Year
General obligation bonds	\$ 20,115,000	\$ 72,805,000	\$ (15,100,000)	\$ 77,820,000	\$ 260,000
General obligation debt certificate	59,000,000	-	(59,000,000)	-	-
Capital lease obligations	15,397	-	(11,309)	4,088	2,925
Compensated absences (Note 6)	619,106	619,358	(511,763)	726,700	363,350
Total	\$ 79,749,503	\$ 73,424,358	\$ (74,623,072)	\$ 78,550,788	\$ 626,275

The District has outstanding general obligation bonds with an original issue of \$11,500,000 dated June 1, 2002. Proceeds of the bonds were used to finance capital improvements and to fund and pay claims against the District, including the refunding of the District's outstanding General Obligation Debt Certificates, Series 2002, dated March 19, 2002, and General Obligation Bonds, Series 1995, dated July 1, 1995. Principal on the bonds is due serially January 1, 2005 through January 1, 2014, with interest rates ranging from 4.60 to 5.25 percent. Interest payments are due semiannually beginning January 1, 2004.

In July 2007, the District defeased principal in the amount of \$5,420,000 with the issuance of the 2007 General Obligation Community College Bonds, leaving a principal balance at June 30, 2008 of \$5,015,000.

The annual requirements to amortize these general obligation bonds outstanding as of June 30, 2008, including interest, are as follows:

Year ending June 30:	Principal	Interest	Total
2009	\$ 260,000	\$ 235,910	\$ 495,910
2010	690,000	222,260	912,260
2011	790,000	189,485	979,485
2012	865,000	151,960	1,016,960
2013	1,100,000	112,170	1,212,170
2014	1,310,000	61,570	1,371,570
	\$ 5,015,000	\$ 973,355	\$ 5,988,355

Heartland Community College
Community College District #540

Notes to Basic Financial Statements

Note 5. Long-Term Liabilities (Continued)

On July 1, 2007, the District issued General Obligation Community College Bonds, Series 2007, in the amount of \$72,805,000, due on December 1, 2013 through December 1, 2026 with interest rates ranging from 3.0 to 5.0 percent. Proceeds of the Bonds were used to fund and pay claims against the District, consisting of the refunding of the District's outstanding \$59,000,000 General Obligation Debt Certificates, dated April 12, 2007, which were issued to construct and equip new buildings, repair existing buildings, improve sites and construct a wind generation facility, advance refund all or a portion of the District's outstanding General Obligation Community College Bonds, Series 2000, dated May 1, 2000 (the *Series 2000 Bonds*), General Obligation Community College Bonds, Series 2002, dated June 1, 2002 (the *Series 2002 Bonds*), General Obligation Community College Bonds, Series 2004, dated August 1, 2004 (the *Series 2004 Bonds*) and General Obligation Community College Bonds, Series 2006, dated June 1, 2006 (the *Series 2006 Bonds*) and pay for certain costs of issuance.

The annual requirements to amortize these general obligation bonds outstanding are as follows:

	Principal	Interest	Total
Year ending June 30:			
2009	\$ -	\$ 6,577,329	\$ 6,577,329
2010	-	3,431,650	3,431,650
2011	-	3,431,650	3,431,650
2012	-	3,431,650	3,431,650
2013	-	3,431,650	3,431,650
2014 - 2018	10,710,000	16,190,750	26,900,750
2019 - 2023	26,310,000	11,535,000	37,845,000
2024 - 2027	35,785,000	3,014,516	38,799,516
	<u>\$ 72,805,000</u>	<u>\$ 51,044,195</u>	<u>\$ 123,849,195</u>

The District is leasing equipment under several capital leases which expire through fiscal year 2010. The total equipment acquired under these leases was \$40,377 and the accumulated depreciation was \$7,528. Monthly payments began in October 2004 with the final payment due in November 2009. The interest rates on the leases range from 5.481 to 5.993 percent.

The annual requirements on these capital leases as of June 30, 2008 are as follows:

	Principal	Interest	Total
Year ending June 30:			
2009	\$ 2,925	\$ 149	\$ 3,074
2010	1,163	18	1,181
	<u>\$ 4,088</u>	<u>\$ 167</u>	<u>\$ 4,255</u>

Heartland Community College
Community College District #540

Notes to Basic Financial Statements

Note 5. Long-Term Liabilities (Continued)

At June 30, 2008, the annual requirements to retire the District's long-term debt were as follows:

Fiscal Year	General Obligation Bonds	Capital Lease Obligations	Total Principal	Total Interest	Total Principal and Interest
2009	\$ 260,000	\$ 2,925	\$ 262,925	\$ 6,813,388	\$ 7,076,313
2010	690,000	1,163	691,163	3,653,928	4,345,091
2011	790,000	-	790,000	3,621,135	4,411,135
2012	865,000	-	865,000	3,583,610	4,448,610
2013	1,100,000	-	1,100,000	3,543,820	4,643,820
Thereafter	74,115,000	-	74,115,000	30,801,836	104,916,836
	<u>\$ 77,820,000</u>	<u>\$ 4,088</u>	<u>\$ 77,824,088</u>	<u>\$ 52,017,717</u>	<u>\$ 129,841,805</u>

The legal debt limit of \$108,228,633 is based on a statutory limit of 2.875 percent of assessed valuation of \$3,764,474,185.

In July 2007, the District defeased all of its Series 2000, Series 2004 and Series 2006 General Obligation Community College Bonds and a portion of its Series 2002 General Obligation Community College Bonds. These bonds were defeased with the issuance of the 2007 General Obligation Community College Bonds. Portions of the proceeds of the new bonds were placed in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liability related to the defeased bonds are not included in the District's financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$41,352. This difference is reported in the accompanying financial statements as a gain on bond refunding. The balance remaining outstanding on these advanced refunded bonds at June 30, 2008 was \$12,212,379.

In 2002, the District defeased its alternative revenue bonds with the issuance of the 2002 general obligation bonds. Portions of the proceeds of the new bonds were placed in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the district's financial statements. The balance remaining outstanding on these advanced refunded bonds at June 30, 2008 was \$2,023,124.

Note 6. Compensated Absences

Accrued compensated absences (earned vacation leave) at June 30, 2008 is \$726,700, and is expected to be paid out ratably over the next two years.

Notes to Basic Financial Statements

Note 7. Operating Leases

Commitments under operating lease agreements for facilities and equipment provide for minimum annual rental payments as follows:

	Facility	Equipment	Total
Year ending June 30:			
2009	\$ 40,860	\$ 22,129	\$ 62,989
2010	20,430	13,197	33,627
2011	-	4,717	4,717
Total	<u>\$ 61,290</u>	<u>\$ 40,043</u>	<u>\$ 101,333</u>

Lease expense amounted to \$133,982 for the year ended June 30, 2008.

Note 8. Retirement Commitments – State University Retirement System

Plan Description

The District contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organization's 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 accessing the website at www.SURS.org or by calling 1-800-275-7877.

Funding Policy

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 current rate is 12.88% 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 to SURS for the year ending June 30, 2008, were \$1,309,964, equal to the required contribution for the year.

Notes to Basic Financial Statements

Note 9. Pending GASB Statements

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued November 2006, will be effective for the District beginning with its year ending June 30, 2009. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This standard requires the District to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The District's management has not yet determined the effect, if any, this statement will have on the District's financial statements.

Note 10. Risk Management

During fiscal year 2006, the District established the Self Insurance Fund (Fund), an internal service fund, to account for and finance its uninsured risks of loss related to medical care and outpatient prescription drug costs. A third party administrator provides administrative services for this self insurance plan. Under this program, the Fund provides coverage of the District's employee medical insurance up to \$65,000 in eligible claims per covered member per year. The aggregate stop loss coverage limit (for all covered members) equals the average number of employees during the stop loss coverage period multiplied by the aggregate stop loss limit claim value of \$7,436. In no event will the aggregate stop loss coverage limit be less than \$1,478,933.

The reserve for health care costs reported in the fund at June 30, 2008, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liability includes all known claims and an amount for claims that have been incurred but not reported (IBNR).

The following is a reconciliation of changes in the reserve for health care costs for the year ended June 30, 2008. The reserve is based on deposits net of changes.

Reserve for health care costs at July 1	\$ 186,511
Claims incurred during the period	1,451,509
Changes in the IBNR estimate	13,497
Payments on claims	<u>(1,448,049)</u>
Reserve for health care costs at June 30	<u><u>\$ 203,468</u></u>

Notes to Basic Financial Statements

Note 11. Restricted and Designated Net Assets

At June 30, 2008 restricted expendable net assets were available for the following purposes:

Capital projects	<u>\$ 189,405</u>
Other:	
Working cash	\$ 3,900,000
Audit	25,135
Liability, protection and settlement	51,927
Self insurance	672,405
Auxilliary	29,999
Total other restricted expendable net assets	<u>\$ 4,679,466</u>

At June 30, 2008, the District had \$5,692,700 of unrestricted net assets. 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.

Note 12. Commitment

The District entered into an agreement with Prairie Aviation Museum, Inc. on April 11, 2008 to purchase certain assets of the Challenger Learning Center over a three year period. The first payment of \$200,000 was made by the District in April 2008 and is presented on the statements of financial position as "Other current asset". The remaining commitment is \$283,154 to be paid in three installments, with the final installment due December 31, 2009. Upon the final installment payment by the District, Prairie Aviation Museum, Inc. shall transfer and convey all of its rights, title and interest to the purchased assets over to the District.

Note 13. Subsequent Event

On August 1, 2008 the District issued Taxable General Obligation Debt Certificates (Limited Tax), Series 2008A, in the amount of \$1,670,000, due serially from August 1, 2009 through August 1, 2018, bearing interest at a rate of 3% per annum until August 1, 2009, such rate to be adjusted on that date, and on each February 1 and August 1 thereafter for the next succeeding six-month period to the rate equal to the greater of 9% per annum or 125% of the rate for the most recent date shown in the 20 G.O Bonds Index of average municipal bond yields as published in the most recent edition of *The Bond Buyer*.

On August 1, 2008 the District issued Taxable General Obligation Debt Certificates (Limited Tax), Series 2008B, in the amount of \$1,330,000, due serially from August 1, 2009 through August 1, 2018, bearing interest at a rate of 4.62% per annum until August 1, 2009, such rate to be adjusted on that date, and on each February 1 and August 1 thereafter for the next succeeding six-month period to the rate equal to the greater of 13.5% per annum or 200% of the rate for the most recent date shown in the 20 G.O Bonds Index of average municipal bond yields as published in the most recent edition of *The Bond Buyer*.

FEDERAL FINANCIAL AND COMPLIANCE SECTION

McGladrey & Pullen

Certified Public Accountants

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters Based
On an Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards***

The Board of Trustees
Heartland Community College
Community College District #540
Normal, Illinois

We have audited the financial statements of Heartland Community College, Community College District #540 (District) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated October 15, 2008.

This report is intended solely for the information and use of management, the Board of Trustees, the Illinois Community College Board, the U.S. Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Springfield, Illinois
October 15, 2008

McGladrey & Pullen

Certified Public Accountants

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
Heartland Community College
Community College District #540

Compliance

We have audited the compliance of Heartland Community College, Community College District #540 (District) 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, 2008. The District'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 District's management. Our responsibility is to express an opinion on the District'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 District'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 District's compliance with those requirements.

In our opinion, the District 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, 2008.

Internal Control Over Compliance

The management of the District 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 District'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 District'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 any 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, management, the Illinois Community College Board, the U.S. Department of Education, 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

Springfield, Illinois
October 15, 2008

Heartland Community College
Community College District #540

Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Federal Grantor/Pass Through Grantor/Program Title or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Education			
Student Financial Aid Cluster (Direct)			
Federal Pell Grant Program	84.063	N/A	\$ 2,540,116
Federal Pell Grant Program-Admin Allowance	84.063	N/A	12,204
Federal Work Study Program	84.033	N/A	101,000
Federal Supplemental Educational Opportunity Grant	84.007	N/A	157,838
Federal Academic Competitiveness Grant	84.375	N/A	27,604
Subtotal Student Financial Aid Cluster (Direct)			<u>2,838,762</u>
CAMPIS Grant (Direct)	84.335	N/A	29,015
TRIO - Student Support Services (Direct)	84.042	N/A	190,935
Pass-through Illinois Community College Board			
Adult Education State Grants:			
Federal Adult Education-Basic	84.002	N/A	53,148
EL/Civics Program	84.002	N/A	8,519
Subtotal Adult Education State Grants			<u>61,667</u>
Vocational Educational Basic Grants to States:			
V.E. Perkins Title II Postsecondary/Adult	84.048	N/A	264,445
V.E. Perkins Tech Prep Support	84.048	N/A	12,551
V.E. Perkins Continuing Quality Improvement	84.048	N/A	10,099
V.E. Perkins Performance Enhancement Grant	84.048	N/A	4,901
V.E. Perkins Innovation Strand III	84.048	N/A	5,000
Subtotal Vocational Educational Basic Grants to States			<u>296,996</u>
Pass-through Illinois State Board of Education			
Tech Prep	84.243	00-477000-53-090-5140-51	7,995
Total U.S. Department of Education			<u>3,425,370</u>
U.S. Department of Labor			
Pass-through United Workforce Development Board, Inc.			
Career Link - Adult Education Grant	17.259	N/A	5,475
U.S. Department of Health and Human Services			
Pass-through Mid-Central Community Action			
Community Services Block Grant	93.569	N/A	5,955
Community Services Block Grant	93.569	N/A	3,596
Total U.S. Department of Health and Human Services			<u>9,551</u>
U.S. Department of Agriculture			
Pass-through State Board of Education			
Child and Adult Food Care Program	10.558	N/A	14,672
National Science Foundations			
National Science Foundation Communities (Direct)	47.070	N/A	12,384
Total Expenditures of Federal Awards			<u><u>\$ 3,467,452</u></u>

See Notes to Schedule of Expenditures of Federal Awards

Heartland Community College
Community College District #540

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Heartland Community College, Community College District #540 (District) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Non-Cash Assistance

The District did not receive any non-cash assistance through federal award programs during the year ended June 30, 2008. In addition, there was no insurance in effect during the year which came through federal sources.

Note 3. Loans Outstanding

The federal award programs of the District had no outstanding loan balances nor were there any loan guarantees as of June 30, 2008.

Note 4. Insurance

The District maintains property and liability insurance which management believes is sufficient to meet its needs. None of the insurance coverages are directly funded by federal awards.

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	<u> X </u> No
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	<u> X </u> No

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 Circular A-133?	_____ Yes	<u> X </u> No
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.063	Student Financial Aid Cluster
84.007	Federal Pell Grant Program
84.033	Federal Supplemental Educational Opportunity Grant Program
84.375	Federal Work Study
	Federal Academic Competitiveness Grant

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?	<u> X </u> Yes	_____ No
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Heartland Community College
Community College District #540

Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

II. Findings Related to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

A. Significant Deficiencies in Internal Control

No findings noted

B. Compliance Findings

No findings noted

Heartland Community College
Community College District #540

Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

III. Findings and Questioned Costs for Federal Awards

A. Significant Deficiencies in Internal Control

None

B. Compliance Findings

None

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

I. Prior Year Financial Statement Findings

A. Internal Control Findings

Finding 07-01

The District has a lack of segregation of duties.

Condition

We noted that the Accountant has access to change the vendor master files, has access to the general ledger, reviews payments to vendors, has the ability to print and disburse, and can post invoices to the accounts payable subsidiary ledger. In addition, checks are printed from the system with two signatures and management does not approve or review checks prior to disbursement.

Corrective Action Taken

The College has resolved the prior year finding by limiting the access of the Accountant and by introducing a management review and approval of check disbursements by the College Treasurer.

Access to the vendor master files is now limited to one staff member in the Accounting Department. This person is not involved in the check disbursement process and does not have access to the check-writing functions within the accounting system software. The Controller continues to review the disbursement register and the approved disbursement register. In addition, the College Treasurer is now provided with a check register that requires his approval of the checks prior to their release.

B. Compliance Findings

None

II. Prior Year Findings and Questioned Costs for Federal Awards

A. Internal Control Findings

None

B. Compliance Findings

None