

**EASTERN ILLINOIS UNIVERSITY
FOUNDATION**

Financial Audit for the Year Ended
June 30, 2006

Performed as Special Assistant Auditors
For the Auditor General, State of Illinois

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
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**EASTERN ILLINOIS UNIVERSITY FOUNDATION
FOUNDATION OFFICIALS**

The Foundation Board of Directors includes:

President
Vice President
Treasurer
Secretary

Mr. Steve Childers
Mr. David Maurer
Mr. Timothy Grover
Mr. Jeffrey Scott

Dr. Herbert Lasky
Mr. Donald Gher
Mr. James Schnorf

Mr. George Paulik
Mrs. Mariann Younger

Ex-Officio Members:

EIU Board of Trustees
EIU President
EIU Vice President for Business Affairs
EIU Vice President for External Affairs
EIU Alumni Foundation

Mr. Roger Kratochvil
Mr. Louis V. Hencken
Mr. Jeffrey L. Cooley
Dr. Jill F. Nilsen
Mr. Todd Hamerlinck

Eastern Illinois University personnel who provide significant administrative support to the Foundation include:

Foundation Executive Officer
Assistant Executive Officer and
Foundation Assistant Secretary
EIU Assistant Comptroller and
Foundation Assistant Treasurer
EIU Accountant III

Ms. Patrice A. Stratton
Ms. April Marchuk

Mr. Rick Edwards

Ms. Tami Babbs

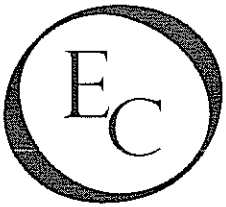
The Foundation office is located at:

Neal Welcome Center
860 West Lincoln Avenue
Charleston, Illinois 61920

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
FINANCIAL STATEMENT REPORT SUMMARY**

The audit of the accompanying financial statements of Eastern Illinois University Foundation (Foundation) was performed by E.C. Ortiz & Co., LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Foundation's basic financial statements.



Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Eastern Illinois University Foundation (Foundation), a component unit of the State of Illinois and Eastern Illinois University, as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the Foundations' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Foundation as of June 30, 2005, which were audited by other independent accountants whose report dated November 4, 2005 expressed an unqualified opinion on those statements, are presented with comparative totals only.

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 the 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 Eastern Illinois University Foundation as of June 30, 2006, and the changes in financial position and cash flows, thereof 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 a report dated October 30, 2006 on our consideration of the Foundation'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.

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 5 through 12 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.

E. C. Ortiz & Co. LLP

October 30, 2006

EASTERN ILLINOIS UNIVERSITY FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Eastern Illinois University Foundation (the Foundation) annual financial report presents management's discussion and analysis of the financial performance of the Foundation during the fiscal year ended June 30, 2006. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of Foundation management.

Reporting Entity

The Eastern Illinois University Foundation is a non-profit corporation and is considered to be a component unit of the State of Illinois and Eastern Illinois University (the University), as defined by the Governmental Accounting Standards Board Statement No. 39. This statement defines component units as organizations where the "substance and significance of the relationship between the organization and the primary government (or its component units) would be such that the exclusion of that organization from the reporting entity's financial statements would render those statements misleading or incomplete." Accordingly, the Foundation is included in the University's financial statements as a discrete component unit.

The Eastern Illinois University Foundation was incorporated in 1953, under the laws of the State of Illinois, as a not-for-profit organization. The Foundation is to assist and support the University's educational and cultural mission through encouraging philanthropic gifts of money, property, works of art, and other materials having educational, artistic, or historical value. These gifts are to be administered with the primary objective of serving purposes other than those for which the State of Illinois ordinarily makes sufficient appropriations. Transactions with the University of cash, services and resources, unrestricted or restricted only as to department, were generally for on-going operations of the University.

Annual Report

These financial statements are prepared in accordance with the guidance found in the statements issued by the Governmental Accounting Standards Board (GASB), including GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. These statements focus on the financial condition of the Foundation, the results of operations and cash flows of the Foundation as a whole.

EASTERN ILLINOIS UNIVERSITY FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS

As prescribed by GASB Statement No. 35, this annual report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. The accompanying notes to the financial statements provide more detailed information regarding the items presented on the face of the financial statements. An explanation of the financial statement presentation follows.

The Statement of Net Assets reflects the assets and liabilities of the Foundation using the accrual basis of accounting and presents the financial position of the Foundation at a specified point in time. The difference between total assets and total liabilities, known as net assets, is one indicator of the current financial condition of the Foundation. The increase or decrease in net assets that occurs over time indicates the improvement or erosion of the Foundation's financial condition.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the fiscal year. Revenues and expenses are reported as either operating or nonoperating. Under the current reporting model, gifts to the Foundation are considered operating revenues, while investment income is considered nonoperating revenue. Additionally, payments for scholarships, distribution to beneficiaries and grants to the University are treated as nonoperating expenses.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities.

Financial Highlights

The Foundation's financial position improved during the fiscal year ended June 30, 2006. Total net assets increased approximately \$3.2 million (8.8%) over June 30, 2005. This is attributable to various factors. The fair value of investments increased by approximately \$1.3 million; the Foundation received approximately \$1.3 million in additional permanent endowments; and gifts and other operating revenue exceeded operating expenses by \$897,069 during fiscal year 2006.

The decrease in the change in net assets between fiscal years 2006 and 2005 was approximately \$0.8 million. The main reason for this decrease was the approximate \$1.2 million decrease in additions to permanent endowments in 2006 from 2005.

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Condensed Financial Information

Condensed Statement of Net Assets, June 30:

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets	\$ 4,482,556	\$ 3,626,201
Noncurrent assets		
Capital assets, net of accumulated depreciation	2,015,002	2,043,645
Other	41,579,716	39,398,789
Total noncurrent assets	<u>43,594,718</u>	<u>41,442,434</u>
Total assets	<u>\$ 48,077,274</u>	<u>\$ 45,068,635</u>
LIABILITIES		
Current liabilities	\$ 1,848,639	\$ 1,908,307
Noncurrent liabilities	<u>7,420,063</u>	<u>7,504,097</u>
Total liabilities	<u>9,268,702</u>	<u>9,412,404</u>
NET ASSETS		
Invested in capital assets, net of related debt	502,764	531,407
Restricted for:		
Nonexpendable endowment	20,021,592	18,462,348
Expendable	17,869,384	16,284,821
Unrestricted	<u>414,832</u>	<u>377,655</u>
Total net assets	<u>38,808,572</u>	<u>35,656,231</u>
Total liabilities and net assets	<u>\$ 48,077,274</u>	<u>\$ 45,068,635</u>

As of June 30, 2006, total current assets of approximately \$4.5 million included approximately \$1.9 million of investments. There was an approximate \$0.9 million change in total current assets between 2006 and 2005. This increase is mainly due to the increase in fair market value of investments and new gifts during fiscal year 2006.

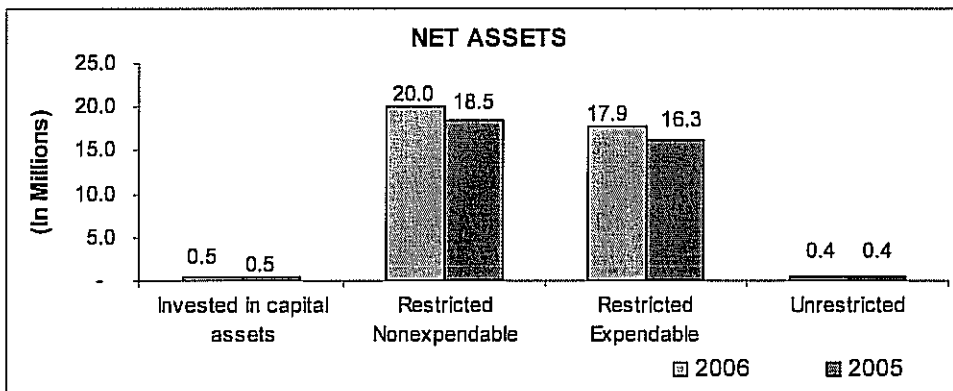
**EASTERN ILLINOIS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Foundation's largest noncurrent assets for June 30, 2006 are its endowment investments of approximately \$20.0 million and restricted long-term investments of approximately \$21.5 million. The approximate \$2.2 million increase in noncurrent investments can be attributed to new gifts (including approximately \$1.3 million new endowment gifts) and the increase in fair value of investments of approximately \$1.3 million.

The Foundation's liabilities as of June 30, 2006 total approximately \$9.3 million. Of this balance, approximately \$7.7 million is the actuarial value of estimated future payments to beneficiaries of annuities and unitrusts plus the assets held by the Foundation as trustee. Liabilities also consist of approximately \$1.5 million of a demand mortgage note payable in fiscal year 2006.

The Foundation's current assets of approximately \$4.5 million for June 30, 2006 were sufficient to cover current liabilities of approximately \$1.8 million for fiscal year 2006. The current ratio of current assets to current liabilities is 2.4 in current assets for every \$1 in current liabilities.

The Foundation's total net assets as of June 30, 2006 totaled approximately \$38.8 million, a \$3.1 million increase over total net assets of \$35.7 million as of June 30, 2005. Net assets classified as "invested in capital assets, net of related debt" remained approximately the same for 2006 and 2005. Net assets classified as "restricted, nonexpendable endowment" increased by approximately \$1.6 million from 2005 to 2006 due mainly to new endowment gifts and the increase in fair value. Net assets classified as "restricted, expendable" increased by approximately \$1.6 million from 2005 to 2006, the result of increases in fair value of investments, new gifts, less the grants to the University. The following graph shows net assets by classification and restriction:



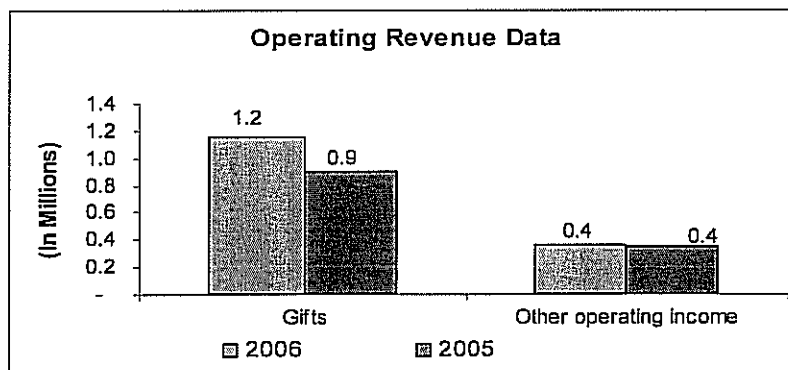
**EASTERN ILLINOIS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30:

	<u>2006</u>	<u>2005</u>
Operating revenues		
Gifts	\$ 1,164,331	\$ 903,941
Other operating revenues	368,283	359,385
Total operating revenues	1,532,614	1,263,326
Operating expenses	635,545	602,405
Operating income	897,069	660,921
Nonoperating revenues (expenses)		
Investment income and net increase in fair value of investments	2,484,063	2,745,148
Scholarships	(614,524)	(523,678)
Grants to University	(866,092)	(1,022,676)
Other nonoperating revenues and expenses	(62,853)	(368,039)
Net nonoperating revenues	940,594	830,755
Income before capital contributions	1,837,663	1,491,676
Additions to permanent endowments	1,314,678	2,495,495
Total increase in net assets	3,152,341	3,987,171
Net assets - beginning of year	35,656,231	31,669,060
Net assets - end of year	<u>\$ 38,808,572</u>	<u>\$ 35,656,231</u>

Operating Revenues

Total operating revenues were \$1.5 million for the year ended June 30, 2006. The most significant source of revenue for the Foundation is gifts of \$1.2 million for fiscal year 2006 as shown below:



EASTERN ILLINOIS UNIVERSITY FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS

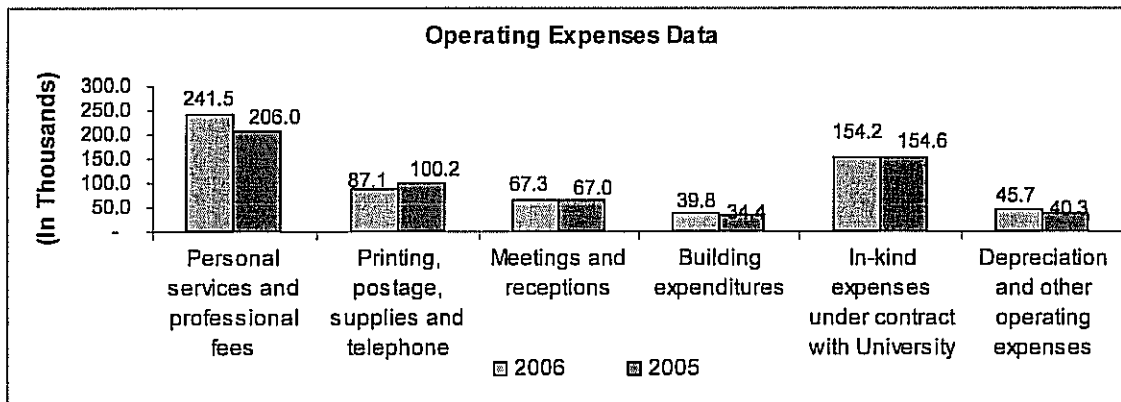
Gifts

The Foundation receives gifts from many sources and for many purposes. There are gifts from telefund drives which are usually used by the University for current operations and scholarships; gifts for various projects such as the Neal Welcome Center, Tarble Arts Center renovation and the Commemorative Courtyard; and planned (deferred) giving gifts by donors used in estate planning. Gifts of permanent endowments for scholarships or to support programs and departments are shown after the nonoperating section of the statement.

During fiscal year 2006, there was a total of approximately \$1.2 million of unrestricted and restricted gifts, \$79,088 of deferred gifts with related liabilities of \$46,197 (net deferred gifts of \$32,891), and approximately \$1.3 million of additions to permanent endowments.

Operating Expenses

Operating expenses for fiscal year 2006, including depreciation of \$28,643, totaled \$635,545. Of this total, \$241,463 or 38% was for personal services and professional fees, and \$154,229 or 24% was in-kind expenses under contract with the University. The breakdown by expense is highlighted below:



Other

Nonoperating revenues (expenses) for fiscal year 2006 consisted of investment income, scholarships to students and grants to the University. Investments showed an increase in the fair value of investments of approximately \$1.3 million; this, when added to interest and dividends income of approximately \$1.2 million and actuarial adjustments of \$267,150, resulted in total nonoperating revenues of approximately \$2.8 million. During fiscal year 2006, the Foundation awarded 722 scholarships totaling \$614,524 and made

EASTERN ILLINOIS UNIVERSITY FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS

grants to the University of approximately \$0.9 million. As noted previously, there was approximately \$1.3 million of additions to permanent endowments.

The Statement of Cash Flows

Condensed Statement of Cash Flows

	For the years ended June 30	
	2006	2005
Cash provided by (used in):		
Operating activities	\$ 861,296	\$ 734,762
Noncapital financing activities	(707,411)	483,359
Capital and related financing activities	(90,217)	(90,355)
Investing activities	610,760	(1,480,175)
Net increase (decrease) in cash and cash equivalents	674,428	(352,409)
Cash and cash equivalents, beginning of year	1,794,884	2,147,293
Cash and cash equivalents, end of year	\$ 2,469,312	\$ 1,794,884

For fiscal year 2006, the major source of funds included in operating activities is cash gifts of \$1,088,069. The major use of funds included in noncapital financing activities are grants to the University of \$866,092, a decrease from 2005 of \$156,584 due mainly to the timing of transfer requests by University departments. Other major uses of funds are scholarships of \$616,416 and distributions to deferred giving beneficiaries of \$372,020. The net use of capital and related financing activities of \$90,217 is payment of interest on the Neal Welcome Center mortgage note. The major source of funds included in investing activities are the proceeds from investment income of \$1.3 million, an increase from fiscal year 2005 because of improved returns on investments, and the proceeds from the sale of investments of approximately \$3.8 million, an increase of approximately \$3.4 million because during 2005 the Foundation changed its asset allocations. The major use of funds included in investing activities in 2006 is the purchase of investments of approximately \$4.6 million, an increase of \$1.5 million from 2005 due to the change in the Foundation's asset allocations and new gifts including approximately \$1.3 million of new endowment gifts.

Economic Outlook

The Foundation's operations are supported by a variety of revenue sources, including the contract with the University, a trust distribution, administrative fees generated from investments, and earnings from endowment funds restricted for Foundation operations. In its recent past, the Board established a new administrative fee schedule assessing

EASTERN ILLINOIS UNIVERSITY FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS

0.75% one time on all incoming gifts, and annually on all long-term invested accounts, which provides a fair, equitable and uniform fee structure. Because it is based on the prior December 31 fair market value, fees are generally known at the start of the fiscal year, rather than at the end, providing a more stable projection of revenues. Development staff continues to add significantly to the gifts coming into the Foundation, appreciably increasing balances in the endowment funds, and generating greater administrative fees to support its operations.

The Foundation completed its fourth year in the Welcome Center and is now settling into more predictable and stable costs for the building's operations and maintenance. The Board annually evaluates the expense side of the budget, and is prudent on how it allocates and where it spends the limited resources available for its operations.

EASTERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF NET ASSETS AS OF JUNE 30, 2006
(With Comparative Totals for 2005)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 384,431	\$ 366,673
Restricted cash and cash equivalents	2,084,881	1,411,068
Restricted investments	1,830,455	1,725,155
Other current investments	49,300	-
Pledges receivable	120,452	92,164
Accounts receivable	12,484	793
Grain inventory	-	9,600
Prepaid expenses	553	20,748
Total current assets	<u>4,482,556</u>	<u>3,626,201</u>
Noncurrent assets		
Restricted cash and cash equivalents	-	17,143
Endowment investments	20,021,592	18,445,205
Restricted investments	21,486,321	20,841,601
Pledges receivable, less current portion	71,803	94,840
Capital assets, net of accumulated depreciation	2,015,002	2,043,645
Total noncurrent assets	<u>43,594,718</u>	<u>41,442,434</u>
TOTAL ASSETS	<u>\$ 48,077,274</u>	<u>\$ 45,068,635</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 7,896	\$ 13,552
Accrued interest	5,655	-
Annuities payable, current portion	322,850	382,517
Demand mortgage payable	1,512,238	1,512,238
Total current liabilities	<u>1,848,639</u>	<u>1,908,307</u>
Noncurrent liabilities		
Annuities payable, less current portion	1,998,698	2,310,588
Due to others	5,421,365	5,193,509
Total noncurrent liabilities	<u>7,420,063</u>	<u>7,504,097</u>
Total liabilities	<u>9,268,702</u>	<u>9,412,404</u>
NET ASSETS		
Invested in capital assets, net of related debt	502,764	531,407
Restricted for:		
Nonexpendable endowment	20,021,592	18,462,348
Expendable	17,869,384	16,284,821
Unrestricted	414,832	377,655
Total net assets	<u>38,808,572</u>	<u>35,656,231</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 48,077,274</u>	<u>\$ 45,068,635</u>

See accompanying notes to basic financial statements.

EASTERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for 2005)

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Gifts	\$ 1,164,331	\$ 903,941
Service contract with the University	187,829	183,683
Budget allocation from the University	45,025	49,501
Other operating income	135,429	126,201
Total operating revenues	<u>1,532,614</u>	<u>1,263,326</u>
OPERATING EXPENSES		
Personal services	117,378	110,989
Printing	14,362	18,629
Postage and supplies	42,481	54,279
Telephone	30,263	27,273
Dues, subscriptions and promotions	7,045	3,542
Meetings and receptions	67,297	66,956
Professional fees	124,085	95,005
Computer maintenance	2,400	2,400
Insurance	7,582	5,895
Building expenditures	39,780	34,414
Depreciation	28,643	28,464
In-kind expenses under contract with the University		
Personnel expenses	106,974	102,828
Utilities and maintenance	2,230	2,230
Budget expended at the University	45,025	49,501
Total operating expenses	<u>635,545</u>	<u>602,405</u>
Operating income	<u>897,069</u>	<u>660,921</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income:		
Interest and dividends	1,205,847	1,024,316
Net increase in fair market value of investments	1,278,216	1,720,832
Scholarships	(614,524)	(523,678)
Distributions to annuity/unitrust beneficiaries	(229,051)	(251,486)
Actuarial adjustments	267,150	(28,651)
Interest on capital asset-related debt	(98,565)	(83,363)
Grants to the University	(866,092)	(1,022,676)
Other	(2,387)	(4,539)
Net nonoperating revenues	<u>940,594</u>	<u>830,755</u>
Income before capital contribution	1,837,663	1,491,676
Additions to permanent endowments	<u>1,314,678</u>	<u>2,495,495</u>
Increase in net assets	3,152,341	3,987,171
NET ASSETS		
Net assets, beginning of year	35,656,231	31,669,060
Net assets, end of year	<u>\$ 38,808,572</u>	<u>\$ 35,656,231</u>

See accompanying notes to basic financial statements.

EASTERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Cash received from gifts	\$ 1,088,069	\$ 880,670
Cash received from service contract with University	78,625	148,250
Cash received from other sources	135,429	126,201
Cash paid to suppliers and other vendors	(440,827)	(420,359)
Net cash provided from operating activities	<u>861,296</u>	<u>734,762</u>
Cash flows from noncapital financing activities		
Grants to the University	(866,092)	(1,022,676)
Grants to organizations	(12,270)	(4,906)
Scholarships	(616,416)	(522,936)
Distributions to annuity/unitrust beneficiaries	(372,020)	(324,658)
Agency receipts	118,115	138,024
Agency payments	(215,580)	(176,014)
Gifts received for endowment purposes	1,256,852	2,396,525
Net cash provided by (used in) noncapital financing activities	<u>(707,411)</u>	<u>483,359</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	-	(17,883)
Interest paid	(90,217)	(90,355)
Proceeds of mortgage loan	-	17,883
Net cash used in capital and related financing activities	<u>(90,217)</u>	<u>(90,355)</u>
Cash flows from investing activities		
Proceeds from the sale of investments	3,765,890	339,324
Investment income (net of fees)	1,268,859	1,100,044
Sale of gift stock and real estate	140,784	123,080
Purchase of investments	(4,564,773)	(3,042,623)
Net cash provided by (used in) investing activities	<u>610,760</u>	<u>(1,480,175)</u>
Net increase (decrease) in cash and cash equivalents	674,428	(352,409)
Cash and cash equivalents, beginning of year	<u>1,794,884</u>	<u>2,147,293</u>
Cash and cash equivalents, end of year	<u>\$ 2,469,312</u>	<u>\$ 1,794,884</u>

See accompanying notes to basic financial statements.

EASTERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for 2005)

	<u>2006</u>	<u>2005</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 897,069	\$ 660,921
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash stock, real estate gifts	(117,133)	(26,149)
Depreciation expense	28,643	28,464
Actuarial adjustment of new annuities and unitrusts	46,197	31,970
Change in assets and liabilities:		
Accounts receivable	(5,326)	40,533
Prepaid expenses	17,502	(3,980)
Accounts payable	(5,656)	3,003
Net cash provided by operating activities	<u>\$ 861,296</u>	<u>\$ 734,762</u>
 Noncash investing, noncapital financing, and capital and related financing transactions		
Change in fair value of investments	<u>\$ 1,276,752</u>	<u>\$ 1,719,812</u>
Change in accrued interest affecting interest paid	<u>\$ 5,655</u>	<u>\$ (4,299)</u>

See accompanying notes to basic financial statements.

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the accompanying financial statements are as follows:

Nature of Operations

The Eastern Illinois University Foundation (the Foundation), located in Charleston, Illinois, was incorporated under the laws of the State of Illinois as a not-for-profit organization. The primary function of the Foundation is to assist in developing and increasing the facilities of Eastern Illinois University for broader educational opportunities for its students, alumni, and citizens of the State of Illinois by encouraging gifts of money, property, works of art, and other materials having educational, artistic, or historical value. These gifts are to be administered with the primary objective of serving purposes other than those for which the State of Illinois ordinarily makes sufficient appropriations.

Financial Reporting Entity

The financial reporting entity is defined by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The financial reporting entity consists of the primary government, as well as component units, which are legally separate organizations for which the primary government is financially accountable. It also includes other component units whose exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

A primary government is financially accountable for a component unit if it appoints a voting majority of the organization's governing body and (1) is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government.

In addition, GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* (an amendment of GASB Statement No. 14, *The Financial Reporting Entity*) increased the factors to consider when determining if a component unit should be included in the financial reporting entity of a primary government.

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
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As stated in GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, a legally separate organization should be considered a component unit of the primary government if the following three factors are met. 1) The separate organization's economic resources are almost entirely held for the direct benefit of the primary government. 2) The primary government is entitled to or has access to the majority of the resources held or received by the separate organization. 3) The resources held or received by the separate organization are significant to the primary government.

Based upon these factors, management considers the Foundation to be a component unit of Eastern Illinois University and the State of Illinois. The Foundation believes it has no component units as defined by GASB Statement No. 14, *The Financial Reporting Entity* as amended.

Financial Statement Presentation

The Foundation has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statements of the Foundation have been prepared in conformance with these statements.

The basic financial statements include prior year comparative information which has been derived from the Foundation's 2005 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2005.

Basis of Accounting

For financial reporting purposes, the Foundation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Foundation's financial statements have been presented using the economic resources measurement focus and accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
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The Foundation has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Foundation has elected not to apply FASB pronouncements issued after the applicable date.

Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the Illinois Funds are considered cash equivalents.

Investments

The Foundation accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in the unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

Restricted Assets

Restricted assets consist of cash and investments that are externally restricted by outside sources. Restricted assets are classified as either current or noncurrent assets in the Statement of Net Assets depending upon when the assets become available for use.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. The Foundation's capitalization threshold for capital assets is as follows: equipment \$5,000 or greater, land \$100,000 or greater, buildings \$100,000 or greater and building improvements \$25,000 or greater. Renovations to buildings and equipment that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 15 to 20 years for building improvements, and 4 to 7 years for equipment.

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
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Noncurrent Liabilities

Noncurrent liabilities include the following: the portion of the annuities payable that will come due in more than one year and amounts due to others that the Foundation will pay out in more than one year.

Panther Club

The Panther Club is a formally organized fundraising group for the Athletic Department. The transactions of the Club are accounted for by the Foundation. The amounts raised are recorded as gifts. The costs of the Panther Club are paid through its fund-raising activities.

Net Assets

The Foundation's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the Foundation's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted net assets-nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted net assets- expendable: Restricted expendable net assets include resources in which the Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from administrative fees charged, unrestricted gifts, agreement with the University and various other sources of revenue. These resources are used for transactions relating to the general operations of the Foundation, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the fiscal agent of the Foundation account uses his discretion in deciding which resources to apply.

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
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Income Taxes

The Foundation is a non-profit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been determined not to be a private foundation.

Gifts of Future Interests

The Foundation records gifts of future interests net of the actual present value of payments required to be made to the donors.

Classification of Revenues

The Foundation has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions or that are part of the Foundation's mission to raise funds for the University, such as (1) gifts, (2) service contract with the University, and (3) development activities sponsored for Athletics.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as investment income and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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 and contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

A reconciliation of cash and investments as shown on the June 30, 2006 Statement of Net Assets is as follows:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash and cash equivalents	\$ 384,431	\$ -	\$ 384,431
Restricted cash and cash equivalents	2,084,881	-	2,084,881
Restricted investments	1,830,455	21,486,321	23,316,776
Other current investments	49,300	-	49,300
Endowment investments	-	20,021,592	20,021,592
Total cash and investments	<u>\$ 4,349,067</u>	<u>\$ 41,507,913</u>	<u>\$ 45,856,980</u>

Breakdown and carrying amount of the cash and investments are as follows:

The Illinois Funds money market accounts	\$ 2,453,822
Money market accounts administered by First-Mid-Illinois Bank and Trust	183,359
Money market accounts administered by Charles Schwab & Co., Inc.	1,216,469
Investments administered by Charles Schwab & Co., Inc.	
Bond funds	12,178,594
Equity funds	19,701,733
Investments administered by Davis Funds	5,389,765
Private Equities	
Investments administered by the Commonfund	996,750
Investments administered by Corbin Pinehurst	1,460,653
Investments administered by Park Street Capital	20,000
Life insurance cash values	60,181
Real estate	<u>2,195,654</u>
Total cash and investments	<u>\$ 45,856,980</u>

Cash and Cash Equivalents

The Foundation's cash deposits mainly represent funds held by the University in the Illinois Funds. The Illinois Funds are pooled short term fully collateralized money market accounts administered by the Treasurer of the State of Illinois. The Foundation also maintains deposits at those depository institutions authorized by the Foundation Board of Directors. These deposits are fully covered by Federal Depository Insurance.

EASTERN ILLINOIS UNIVERSITY FOUNDATION
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Investments

The Foundation is authorized by the Board of Directors to invest funds in compliance with stated investment policies. Investments in real estate and farm properties are carried at cost, or when donated, at the fair value at the date of donation. All other investments are carried at their fair value, as determined by quoted market prices for investments that have readily available fair value. For investments for which a readily determinable fair value does not exist (e.g. private equities), the investments are valued at estimated fair values based on information provided by the fund managers. Because of the inherent uncertainty of valuation relating to the Foundation's investments in investee funds and their underlying investments, the estimate of fair value may differ from the values that would have been used had a ready market existed, and any difference could be material.

If a donor has not provided specific instructions, Illinois Compiled Statutes (760 ILCS 50/30) permits the Board of Directors to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board of Directors is required to consider the Foundation's long-term and short-term needs, present and anticipated financial requirement, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes of which the endowment was established.

The long-term objective of the endowment funds, as determined by the Board of Directors, is to achieve a total return in excess of its current spending rate policy over a twenty-year time horizon. The current rate of the spending rate policy is 5% per year, comprised of a 4.25% spending rate and 0.75% for administrative expenses. In addition to achieving the 5% spending rate policy, the policy asset allocation is designed to cover the costs of inflation, investment management/consulting fees, and other related costs. The spending allowance calculation is determined by taking the spending rate (currently 5%) times the investment portfolio's trailing twelve-quarter average market value, as of December 31st of each year. Any remaining return over the 5% spending rate will be retained for use in future years. As of June 30, 2006, net appreciation of \$11,528,206 is available to be spent, but is restricted to specific purposes. Also, as of June 30, 2006, the fair market values of certain endowment investments were below their original cost by \$4,907.

Custodial Credit Risk

Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the Foundation would not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The Foundation's policy does not address custodial credit risk. All of the Foundation's

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

investments are held by a custodian in the Foundation's name and are not subject to creditors of a custodial bank.

The Foundation's investments in The Illinois Funds, money market mutual funds, mutual funds, bond funds, equity funds and Federated Treasury Obligations Trust are not subject to detail disclosure because the Foundation owns shares of each investment fund and not the physical securities. Cash surrender value of life insurance and real estate are also not subject to disclosure.

Concentration Risk

The Foundation does not have any investments representing 5% or more of total assets in any single issuer. The Foundation does not have a policy that specifically addresses concentration risk.

The Foundation has not held foreign currency positions. Managers are authorized to participate in securities lending, but did not participate in securities lending other than participation in a mutual fund.

The Illinois Funds are in the custody of the State Treasurer and are pooled and invested with other state funds in accordance with the Deposit of State Moneys Act (15 ILCS 520/11). Details on the nature of these investments are available within the State of Illinois' Comprehensive Annual Financial Report. The Illinois Funds do not have any direct or indirect investments in derivative instruments.

The money market mutual funds, bond funds, equity funds, Federated Treasury Obligations Trust and mutual funds have not disclosed to the Foundation whether derivatives are used, held or were written during the period covered by the financial statements.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's fixed income investments as of June 30, 2006 are disclosed as follows:

<u>Effective Duration</u>	<u>0-1 Year</u>
Mutual Bond Funds	\$ 12,178,594

EASTERN ILLINOIS UNIVERSITY FOUNDATION
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The Foundation holds mutual bond funds with PIMCO and Vanguard. PIMCO bond funds have an average maturity of 5 years. Vanguard bond funds have an average maturity of 7.1 to 10 years. The Foundation does not have a policy that specifically addresses interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. PIMCO bond funds are rated AAA by S&P. Vanguard bond funds are rated AAA and AA by S&P. The Foundation has no specific guidelines addressing the credit rating of fixed income securities. The quality ratings for investments disclosed as of June 30, 2006 are shown as follows.

<u>Quality Rating</u>	<u>AAA</u>	<u>AA</u>
Money Market	\$ 1,399,828	\$ -
Mutual Bond Funds	11,776,624	401,970

3. PLEDGES RECEIVABLE

Unconditional pledges receivable as of June 30, 2006 consists of the following:

Gross unconditional pledges receivable -	
restricted to athletic facilities improvements	\$ 216,999
Less: Unamortized discount	(24,744)
Net unconditional pledges receivable	<u>192,255</u>
Less: Current portion of pledges receivable	(120,452)
Noncurrent pledges receivable	<u><u>\$ 71,803</u></u>
Amounts due in:	
Less than one year	\$ 111,458
One to five years	105,541
	<u><u>\$ 216,999</u></u>

Unconditional pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate ranging from 4% to 8.25%.

Uncollectible amounts for unconditional pledges receivable are expected to be insignificant. Accordingly, no provision is made for uncollectible amounts.

EASTERN ILLINOIS UNIVERSITY FOUNDATION
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JUNE 30, 2006

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2006</u>
Capital assets not being depreciated				
Land	\$ 695,930	\$ -	\$ -	\$ 695,930
Other depreciable capital assets				
Buildings and improvements	1,432,145	-	-	1,432,145
Total capital assets being depreciated	<u>1,432,145</u>	<u>-</u>	<u>-</u>	<u>1,432,145</u>
Less accumulated depreciation				
Buildings and improvements	84,430	28,643	-	113,073
Total accumulated depreciation	<u>84,430</u>	<u>28,643</u>	<u>-</u>	<u>113,073</u>
Total capital assets being depreciated, net	<u>1,347,715</u>	<u>(28,643)</u>	<u>-</u>	<u>1,319,072</u>
Total capital assets, net	<u>\$ 2,043,645</u>	<u>\$ (28,643)</u>	<u>\$ -</u>	<u>\$ 2,015,002</u>

Depreciation for the year ended June 30, 2006 was \$28,643.

5. LONG-TERM LIABILITIES

Long-term liability activities for the year ended June 30, 2006 were as follow:

	<u>Balance</u> <u>6/30/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2006</u>	<u>Amounts due</u> <u>within one year</u>
Demand mortgage note	\$ 1,512,238	\$ -	\$ -	\$ 1,512,238	\$ 1,512,238
Annuities payable	2,693,105	45,963	417,520	2,321,548	322,850
Due to others	5,193,509	243,321	15,465	5,421,365	-
Total long-term liabilities	<u>\$ 9,398,852</u>	<u>\$ 289,284</u>	<u>\$ 432,985</u>	<u>\$ 9,255,151</u>	<u>\$ 1,835,088</u>

The demand mortgage note payable was incurred for the purchase of land and construction of the Foundation center, known as the Neal Welcome Center. The building, as well as two unitrust gifts, was pledged as collateral on this note. Accrued interest is payable on demand, but if no demand is made, then on the 10th day of each month. The principal is payable on demand, but if no demand is made, then on October 10, 2011.

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
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JUNE 30, 2006**

Maturity information

The scheduled maturities of the mortgage note payable if no demand is made are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2007	\$ -	\$ 98,295	\$ 98,295
2008	-	98,295	98,295
2009	-	98,295	98,295
2010	-	98,295	98,295
2011	-	98,295	98,295
2012	1,512,238	27,748	1,539,986
Total	<u>\$ 1,512,238</u>	<u>\$ 519,223</u>	<u>\$ 2,031,461</u>

6. TRANSACTIONS WITH RELATED PARTIES

The Foundation has a contract with Eastern Illinois University in which the Foundation has agreed to aid and assist the University in achieving its education, research and service goals by developing and administering gifts made to the Foundation to be used for the benefit of the University for scholarships, grants and other supporting programs. The University agreed, as a part of this contract, to furnish certain services necessary to the operation of the Foundation which are to be repaid by the Foundation either in the form of money or its equivalent in services or resources.

During the year ended June 30, 2006, the University provided cash, services and other resources to the Foundation totaling \$187,829 to help defray the Foundation's costs incurred under the contract. During the year ended June 30, 2006, the Foundation incurred expenses of \$109,204 under the contract.

During the year ended June 30, 2006, the Foundation gave the University \$928,447 of cash, services and resources, unrestricted or restricted only as to department, which were generally for on-going operations of the University. In addition, the Foundation gave the University restricted scholarships, grants and awards of \$614,524 during the year. Services and resources totaling \$62,355 for the year ended June 30, 2006 are included above, but not reflected in the financial statements. Also, the Foundation received \$15,939 for the year ended June 30, 2006, in gifts from the University's restricted gift account with the donor's consent.

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
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Pursuant to governmental accounting standards, the Foundation is required to recognize as revenue, and expense those on-behalf payments for fringe benefits made by the State of Illinois to the State Universities Retirement System for University employees who are supervised by the Foundation. These payments (estimated at \$45,025 in 2006) are the amounts shown as Budget allocations from the University and Budget expended at the University in the Statement of Revenues, Expenses and Changes in Net Assets.

7. FUNDS HELD IN TRUST FOR OTHERS

The Foundation has been named Trustee and Executor of the Residuary Trust (the Trust) as stipulated in the Last Will and Testament of H. Ogden Brainard. It is the responsibility of the Trustee to hold and administer the Trust for the uses and purposes stipulated in the will. The Foundation's responsibilities as trustee include paying certain bequests (which were disbursed in March 1993) and paying the net income to the Trust to certain charities as stipulated in the Trust, not less frequently than semi-annually.

The Foundation agreed to act as a successor corporate trustee for the William Forest Buckler Trust, a trust under the will of William Forest Buckler. It is the responsibility of the trustee to hold and administer the trust for the uses and purposes stipulated in the will. The will named Eastern Illinois University, not the Foundation, as the beneficiary of the remainder of the trust estate after the expiration of the trust.

The assets of these trusts totaled \$4,581,378 for 2006. They are included in the cash and investment classifications within the financial statements. Also, the related liability of \$4,581,378 for 2006 is included in the due to others classification within the financial statements.

8. RISK MANAGEMENT

The Foundation is exposed to various risks of loss including, but not limited to, general liability, property casualty and director and officer liability. The Foundation is liable for up to \$500 per year deductible for property damage. No significant reductions in insurance coverage from the prior year occurred. Insurance settlements did not exceed coverage in each of the past three fiscal years.

**EASTERN ILLINOIS UNIVERSITY FOUNDATION
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JUNE 30, 2006**

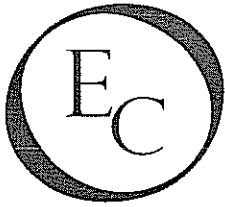
9. FUNCTIONAL CLASSIFICATION OF EXPENSES

Operating expenses by functional classification for the year ended June 30, 2006 are summarized as follows:

Institutional Support	\$ 606,902
Depreciation	<u>28,643</u>
	<u>\$ 635,545</u>

10. CONTINGENCIES

The Foundation is party to a lawsuit arising out of the normal conduct of its operations. In the opinion of Foundation management, the ultimate resolution of this matter will not have a material adverse effect upon the Foundation's financial position.



**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***

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of Eastern Illinois University Foundation (Foundation), a component unit of the State of Illinois and Eastern Illinois University, as of and for the year ended June 30, 2006 and have issued our report thereon dated October 30, 2006. 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 Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation'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*.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Directors, and Foundation management and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Ortiz & Co. LLP

October 30, 2006