

**EASTERN ILLINOIS UNIVERSITY
ALUMNI ASSOCIATION, INC.**

Financial Audit for the Year Ended
June 30, 2006

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

EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
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**EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
ALUMNI ASSOCIATION OFFICIALS**

The Alumni Association Board of Directors includes:

President	Ms. Tracy Schorle
Vice President	Ms. Victoria Markley
Secretary and Treasurer	Mr. Gary Kling
Immediate Past President	Ms. Susan Young
Mr. Paul Aguilar	Mr. Tim McCollum
Mr. Michael Baum	Mr. Gary Miller
Ms. Sara Groom Boucek	Ms. Alison Mormino
Ms. Nancy Elwess	Mr. Hugh O'Hara
Mr Steve Gosselin	Mr. Shawn Peoples
Mr. Dennis Grannan	Mr. Jim Schnorf
Mr. Todd Hammerlink	Mr. David Senteney
Ms. Rene Hutchinson	Mr. David Sluzevich
Mr. Herb Lasky, EIU Foundation Member Ex-Officio	Mr. Brad Waltrip

The Executive Director of the Alumni Association is Mr. Steve Rich.

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

Vice President for Business Affairs	Mr. Jeffrey Cooley
Assistant Comptroller	Mr. Rick Edwards
Accountant III	Ms. Tami Babbs
Assistant Director, Alumni Services	Ms. Jerilyn Hutson
Assistant Director, Alumni Services	Mr. Jonathan McKenzie
Assistant Director, Alumni Services	Ms. Chelsea Frederic

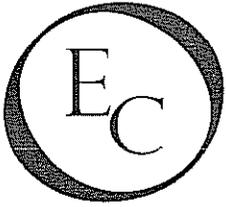
Alumni Association office is located at:

Brainard House
1548 Fourth Street
Charleston, Illinois 61920

**EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
FINANCIAL STATEMENT REPORT SUMMARY**

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

Based on their audit, the auditors expressed an unqualified opinion on the Association'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 Alumni Association, Inc. (Association), 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 Associations' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative financial information has been derived from the Association's June 30, 2005 financial statements audited by another auditor whose report dated October 14, 2005, expressed an unqualified opinion on those financial statements.

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 Alumni Association, Inc. as of June 30, 2006, and the changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 16, 2006 on our consideration of the Association'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 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 16, 2006

EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Eastern Illinois University Alumni Association, Inc. (Association) annual financial report presents management's discussion and analysis of the financial performance of the Association 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 Association management.

Reporting Entity

The Association is a non-profit corporation and is considered to be a component unit of the State of Illinois and Eastern Illinois University (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 Association is included in the University's financial statements as a discrete component unit. Transactions with the University relate primarily to fostering loyalty and fellowship among the alumni of the University and provide a medium through which the alumni can contribute to the welfare of the University.

The Association is located in Charleston, Illinois. It was established in 1905 as a means of allowing continuing involvement of graduates and former students in the development of their University. The organization sponsors special events for alumni; assists with homecoming, reunions and similar activities; facilitates communication between alumni and the University; assists in maintaining alumni records; and has other initiatives that contribute to the welfare of the University.

Using the 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 Association, the results of operations and cash flows of the Association as a whole.

EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

As prescribed by GASB Statement No. 35, this annual report includes three financial statements: the Statement of Net Assets; 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 Association using the accrual basis of accounting and presents the financial position of the Association 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 Association. The increase or decrease in net assets that occur over time indicates the improvement or erosion of the Association'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 either operating or nonoperating. Under the current reporting model, investment income, interest expense, grants to the University, and scholarships are treated as nonoperating activities.

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

Financial Highlights

During the year ended June 30, 2006, the Association's net assets decreased by \$79,308 to \$2,005,933. The reasons for this decrease are the Association donated \$56,941 to the University and the Association reported a \$29,039 decrease in the fair value of investments due to a fluctuation in the bond markets.

**EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Condensed Financial Information

Condensed Statement of Net Assets, June 30:

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$ 701,690	\$ 634,530
Noncurrent assets		
Capital	223,684	229,683
Other	<u>1,080,626</u>	<u>1,221,033</u>
Total noncurrent assets	<u>1,304,310</u>	<u>1,450,716</u>
Total assets	<u>\$ 2,006,000</u>	<u>\$ 2,085,246</u>
Liabilities		
Current liabilities	<u>\$ 67</u>	<u>\$ 5</u>
Total liabilities	<u>67</u>	<u>5</u>
Net assets		
Invested in capital assets	223,684	229,683
Unrestricted	<u>1,782,249</u>	<u>1,855,558</u>
Total net assets	<u>2,005,933</u>	<u>2,085,241</u>
Total liabilities and net assets	<u>\$ 2,006,000</u>	<u>\$ 2,085,246</u>

As of June 30, 2006, Association assets totaled \$2,006,000. The largest asset of the Association is its investments of \$1,158,956 at June 30, 2006. The \$16,416 increase in investments in 2006 is due to the \$45,455 investment income (net of fees) reinvested and the \$29,039 decrease in the fair value of investments as of June 30, 2006.

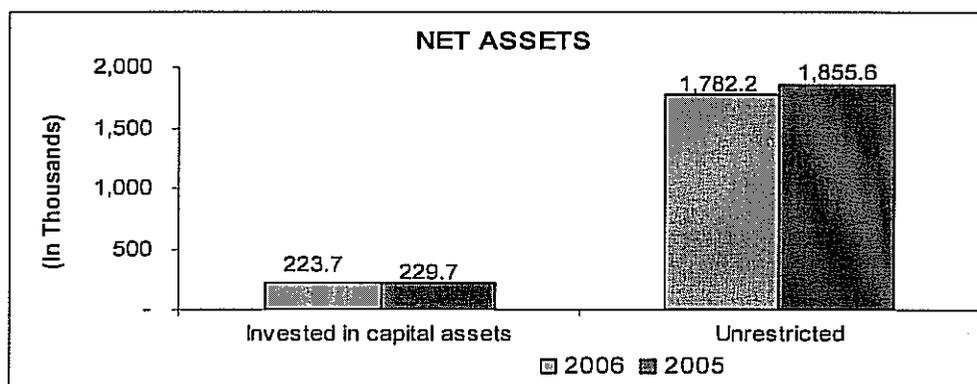
The Association's current assets of \$701,690 as of June 30, 2006 were sufficient to cover the current liabilities of \$67. The current ratio of current assets to current liabilities is 10,473 in current assets for every \$1 in current liabilities for fiscal years 2006.

There was no significant difference in liabilities from fiscal year 2005 to 2006.

There were no material changes in total net assets between fiscal years 2006 and 2005.

**EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graph shows net assets by classification and restriction:



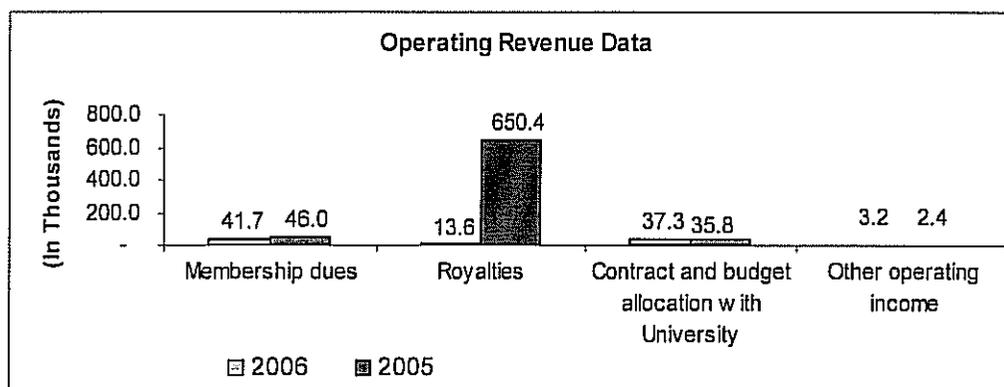
Condensed Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30:

	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 95,850	734,679
Operating expenses	<u>135,645</u>	<u>152,492</u>
Operating income (loss)	(39,795)	582,187
Net nonoperating revenues (expenses)	<u>(39,513)</u>	<u>(64,755)</u>
Increase (decrease) in net assets	(79,308)	517,432
Net assets, beginning of year	<u>2,085,241</u>	<u>1,567,809</u>
Net assets, end of year	<u><u>\$ 2,005,933</u></u>	<u><u>\$ 2,085,241</u></u>

Operating Revenues

Total operating revenues for fiscal years 2006 and 2005 were approximately \$95.8 thousand and \$734.7 thousand, respectively. In 2006, the majority of the operating revenue was from membership dues, service contract and budget allocation with the University. The most significant source of operating revenue for the Association in 2005 was the \$646.7 thousand of royalty income from the new affinity card contract.

**EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS**



Membership Dues

Membership dues assist in covering the cost of keeping in touch with alumni. The benefits from the membership include subscription to “Old Main Line” magazine, use of University library, discounts and first priority on various tickets to events, travel related discounts and various other benefits. New graduates receive a complimentary one-year membership. The new graduate only has to pay half of an annual membership if they renew their membership for a second year. The following is a list of the cost of memberships:

New graduate membership	\$ 15
Annual membership	30
Annual family membership	45
Life membership	450
Family life membership	700

As shown below, the total number of Association paid memberships decreased during fiscal year 2006. The 2006 decrease in total paid memberships resulted in a \$4,300 decrease in membership dues revenue over 2005. At June 30, 2006 and 2005, the Association had the following membership breakdown:

	<u>2006</u>	<u>2005</u>
Complimentary annual memberships	2,232	3,361
New graduate memberships	73	68
Annual memberships	941	1,000
Annual family memberships	119	111
Life memberships	179	172
Family life memberships	36	38
Senior life memberships	36	37
Senior family life memberships	9	9

EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

Royalties

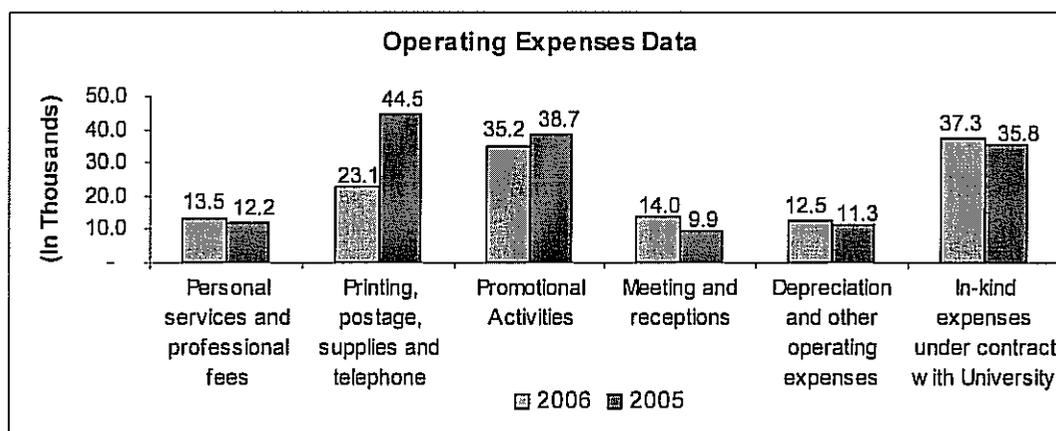
During fiscal year 2005, the Association entered into a new agreement with a bank whereby the Association and the bank will market the bank's credit card services to members of the Association (plus other participants mutually agreed to by the Association and the bank) using the Association's name and logo. The present value amount of the guaranteed payments under this agreement was recognized as revenue in fiscal year 2005.

Service Contract and Budget Allocation from the University

There were no material differences in the amount of revenue recognized in the service contract between the Association and the University and the amount of budget allocation from the University in 2006 and 2005.

Operating Expenses

Operating expenses for the years ended June 30, 2006 and 2005, totaled \$135,645 and \$152,492, respectively. Of the total for 2006, \$23,100 or 17% was printing, postage, telephone and supplies, \$49,255 or 36% was meeting, receptions and promotional activities, and \$27,225 or 20% was in-kind expenses under contract with the University. Of the 2005 total, \$44,495 or 29% was printing, postage, telephone and supplies, \$48,643 or 32% was meeting, receptions and promotional activities, and \$25,625 or 17% was in-kind expenses under contract with the University. The breakout by expense is highlighted below:



**EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Other

The investment income of \$22,428 and \$30,802 for the years ended June 30, 2006 and 2005 was the largest source of nonoperating revenue each year. This is made up of interest and dividends earned of \$51,467 less a decrease in fair market value of investments of \$29,039 for 2006 and interest and dividends earned of \$48,762 less a decrease in fair market value of investments of \$17,960 for 2005. The decreases in the fair market values in 2006 and 2005 are primarily due to unrealized losses because of changes in current interest rates.

Gifts and grants to the University of \$56,941 and \$90,557 for the years ended June 30, 2006 and 2005 were the largest composition of nonoperating expenses each year. The large amount in 2005 was because the Association funded the construction of a campus clock tower given as a gift to the University. During both 2006 and 2005, the Association also awarded \$5,000 of scholarships to students.

The Statement of Cash Flows

The statement of cash flows provides information about the Association's sources and uses of cash during the fiscal year.

Condensed Statement of Cash Flows for the year ended June 30:

	<u>2006</u>	<u>2005</u>
Cash provided by (used in):		
Operating activities	\$ 92,302	\$ 138,368
Noncapital financing activities	(61,941)	(95,557)
Investing activities	<u>4,337</u>	<u>70,604</u>
Net increase in cash and cash equivalents	34,698	113,415
Cash, beginning of year	<u>129,760</u>	<u>16,345</u>
Cash, end of year	<u>\$ 164,458</u>	<u>\$ 129,760</u>

For fiscal year 2006, the major source of funds included in operating activities were royalty payments of \$123,985 received from the credit card affinity program. The payments to suppliers totaled \$78,725 for 2006. The \$32,739 decrease in payments is mainly due to the University sharing the costs incurred in printing and mailing the Old Main Line magazine to alumni and the decrease in promotional activities. The uses of funds included in noncapital financing activities during 2006 are various gifts to the University of \$56,941 and the awarding of scholarships to students of \$5,000. The net

**EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS**

source of funds from investing activities in fiscal year 2006 is the \$49,793 received from interest and dividends (which were reinvested, net of fees).

Economic Outlook

The Alumni Association's operations are funded primarily through earnings generated from investments, membership programs and revenue from a credit card affinity program. Additional funds of a smaller scale are obtained through travel programs and health insurance offerings to recent graduates. In fiscal year 2007, the Association anticipates it will earn \$120,000 through the credit card affinity program and related sponsorships.

EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
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	\$ 164,458	\$ 129,760
Investments	417,383	360,610
Accounts receivable	4,434	4,980
Interest receivable	12,835	11,160
Royalties receivable	101,617	113,529
Prepaid expense	963	14,491
Total current assets	<u>701,690</u>	<u>634,530</u>
Noncurrent assets		
Accounts receivable	4,350	5,950
Royalties receivable	334,703	433,153
Investments	741,573	781,930
Capital assets, net of accumulated depreciation	223,684	229,683
Total noncurrent assets	<u>1,304,310</u>	<u>1,450,716</u>
TOTAL ASSETS	<u>\$ 2,006,000</u>	<u>\$ 2,085,246</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 67	\$ 5
Total liabilities	<u>67</u>	<u>5</u>
NET ASSETS		
Invested in capital assets	223,684	229,683
Unrestricted	<u>1,782,249</u>	<u>1,855,558</u>
Total net assets	<u>2,005,933</u>	<u>2,085,241</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,006,000</u>	<u>\$ 2,085,246</u>

See accompanying notes to basic financial statements.

EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
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		
Membership dues	\$ 41,715	\$ 46,015
Merchandise sales	677	-
Alumni promotions	380	1,020
Royalties	13,623	650,440
Service contract with the University	27,225	25,625
Budget allocation from the University	10,106	10,171
Gifts	1,797	1,290
Other operating income	327	118
	<u>95,850</u>	<u>734,679</u>
OPERATING EXPENSES		
Personal services	4,380	4,050
Printing	10,471	23,490
Postage, telephone and supplies	12,629	21,005
Dues and subscriptions	802	1,562
Meetings and receptions	14,045	9,905
Professional fees	9,096	8,172
Promotional activities	35,210	38,738
Insurance	3,407	3,263
Building expenditures	2,275	512
In-kind expenses under contract with the University		
Personnel services	26,549	24,982
Rent, utilities and maintenance	676	643
Budget expended at the University	10,106	10,171
Depreciation expense	5,999	5,999
	<u>135,645</u>	<u>152,492</u>
Operating income (loss)	<u>(39,795)</u>	<u>582,187</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income:		
Interest and dividends	51,467	48,762
Net decrease in fair market value of investments	(29,039)	(17,960)
Scholarships	(5,000)	(5,000)
Gifts/grants to the University	(56,941)	(90,557)
	<u>(39,513)</u>	<u>(64,755)</u>
Net nonoperating expenses	<u>(39,513)</u>	<u>(64,755)</u>
Increase (decrease) in net assets	<u>(79,308)</u>	<u>517,432</u>
NET ASSETS		
Net assets, beginning of year	2,085,241	1,567,809
Net assets, end of year	<u>\$ 2,005,933</u>	<u>\$ 2,085,241</u>

See accompanying notes to basic financial statements.

EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
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		
Membership dues	\$ 43,861	\$ 43,646
Gifts	1,797	1,290
Promotional revenue	380	1,020
Royalties	123,985	203,758
Other receipts	1,004	118
Payments to suppliers and vendors	<u>(78,725)</u>	<u>(111,464)</u>
Net cash provided from operating activities	<u>92,302</u>	<u>138,368</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Scholarships	(5,000)	(5,000)
Gifts/grants to the University	<u>(56,941)</u>	<u>(90,557)</u>
Net cash used in noncapital financing activities	<u>(61,941)</u>	<u>(95,557)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	49,793	51,637
Proceeds from the sale of investments	-	70,000
Purchase of investments	<u>(45,456)</u>	<u>(51,033)</u>
Net cash provided by investing activities	<u>4,337</u>	<u>70,604</u>
Net increase (decrease) in cash and cash equivalents	34,698	113,415
Cash and cash equivalents, beginning of year	<u>129,760</u>	<u>16,345</u>
Cash and cash equivalents, end of the year	<u>\$ 164,458</u>	<u>\$ 129,760</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income or (loss)	\$ (39,795)	\$ 582,187
Adjustments to reconcile net income or loss to net cash provided by (used in) operating activities:		
Depreciation expense	5,999	5,999
Change in assets and liabilities:		
Accounts receivable	2,146	(2,369)
Royalties receivable	110,362	(446,682)
Prepaid expense	13,528	434
Accounts payable	<u>62</u>	<u>(1,201)</u>
Net cash provided from operating activities	<u>\$ 92,302</u>	<u>\$ 138,368</u>
NONCASH INVESTING TRANSACTIONS		
Change in fair value of investments	<u>\$ (29,039)</u>	<u>\$ (17,960)</u>

See accompanying notes to basic financial statements.

EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
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 Alumni Association, Inc. (the Association), located in Charleston, Illinois, was incorporated under the laws of the State of Illinois as a not-for-profit organization. The primary functions of the Association are to foster loyalty and fellowship among the alumni of Eastern Illinois University and to provide a medium through which the alumni can contribute to the welfare of the University.

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.

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.

EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

Financial Statement Presentation

The Association 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 Association have been prepared in conformance with these statements.

The basic financial statements include prior-year comparative information, which has been derived from the Alumni Association'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 Alumni Association's financial statements for the year ended June 30, 2005.

Basis of Accounting

For financial reporting purposes, the Association is considered a special-purpose government engaged only in business-type activities. Accordingly, the Association'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.

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

EASTERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Cash Equivalents

For purposes of the statement of cash flows, the Association 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 Association 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.

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. For equipment, the Association's capitalization policy includes all items with a unit cost of \$500 or more, and for land, buildings and improvements, their capitalization policy is \$5,000 or more. 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 land improvements and building improvements, and 4 to 7 years for equipment.

Net Assets

The Association's net assets are classified as follow:

Invested in capital assets: This represents the Association's total investment in capital assets. There is no outstanding debt related to these assets at this time.

Unrestricted net assets: Unrestricted net assets represent resources derived from Association membership dues, alumni promotions, net investment income and other Association activities.

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Income Taxes

The Association 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.

Classification of Revenues

The Association 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 Association's mission to contribute to the welfare of the University, such as (1) Association membership dues and gifts and (2) Alumni promotions and merchandise.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of non-exchange 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.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The Association's cash deposits are 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.

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Investments

The Association's Board of Directors provides oversight of the Association's investment policy. The policy is structured to provide guidance to external managers as they strive to meet the Association's goals. They seek to limit the overall level of risk commensurate with the chosen policy asset allocation. The Association has no legal or contractual restrictions on the type of investments they purchase. On the Statement of Revenues, Expenses and Changes in Net Assets, investment income is netted with investment fees. Investment fees were \$5,768 for the year ended June 30, 2006.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Association's investment guidelines establish an asset allocation up to 85% for fixed income and cash equivalents. The fixed income portfolio should invest approximately 70% in corporate bonds. The average maturity of the fixed income portfolio should not exceed 4-5 years. An assumption is made in reporting that callable bonds will be held until maturity. Effective duration ranges for investments are as follows:

<u>Effective Duration</u>	<u>U.S. Agencies</u>	<u>Corporate</u>	
		<u>Bonds</u>	<u>Total</u>
0-1 year	\$ 69,300	\$ 50,137	\$ 119,437
1-5 years	81,697	381,912	463,609
5-10 years	144,969	-	144,969
10-15 years	132,995	-	132,995
Total	<u>\$ 428,961</u>	<u>\$ 432,049</u>	<u>\$ 861,010</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Association investment policy limits investments to 'A' rated or above fixed income securities. The quality ratings for investments are as follows:

<u>Quality Rating</u>	<u>Money Market</u>	<u>U.S. Agencies</u>	<u>Corporate Bonds</u>	<u>Total</u>
AAA	\$ 146,210	\$ 428,961	\$ 50,137	\$ 625,308
AA	-	-	47,522	47,522
A	-	-	334,390	334,390
Total	<u>\$ 146,210</u>	<u>\$ 428,961</u>	<u>\$ 432,049</u>	<u>\$ 1,007,220</u>

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Custodial Credit Risk

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

The Association's investments in the Illinois Funds, mutual funds and money market funds are not subject to detailed disclosure because the Association owns shares of each investment fund and not the physical securities.

Concentration Risk

The Association held the following corporate bonds that exceeded 5% of total investments as of June 30, 2006:

<u>Issuer</u>	<u>Maturity</u>	<u>Moody's Rating</u>	<u>Market Value</u>
Bank of America	2/15/2010	AA3	\$80,087

The Alumni Association has not held foreign currency positions, nor has it participated in securities lending.

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 funds and mutual funds have not disclosed to the Association whether derivatives are used, held, or were written during the period covered by the financial statements.

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Reconciliation to the Statement of Net Assets

A reconciliation of cash and investments to amounts reported in the Association's Statement of Net Assets as of June 30, 2006, follows:

The Illinois Funds money market accounts	\$ 164,458
Investments administered by First Mid-Illinois Bank & Trust	
Money market mutual funds	146,210
Common Trust funds	151,736
Corporate bonds and notes	432,049
U.S. Government and U.S. Agency securities	428,961
Total cash and investments	<u>\$ 1,323,414</u>

3. ACCOUNTS RECEIVABLE

The Association records amounts owed on installment memberships as receivables. They have adjusted these receivables for all known uncollectible accounts and no allowance for bad debts is considered necessary at year-end.

4. ROYALTIES RECEIVABLE

Royalties receivable as of June 30, 2006 consists of the following:

Gross royalties receivable	\$ 550,000
Less: Unamortized discount	<u>(113,680)</u>
Net royalties receivable	436,320
Less: current portion of royalties receivable	<u>(101,617)</u>
Noncurrent royalties receivable	<u>\$ 334,703</u>
Amounts due in:	
Less than one year	\$ 110,000
One to five years	<u>440,000</u>
	<u>\$ 550,000</u>

Royalties receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 8.25% for 2006.

A complete summary of royalties is presented in note # 7.

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5. CAPITAL ASSETS

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

	<u>6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2006</u>
Capital assets not being depreciated:				
Land	\$ 33,357	\$ -	\$ -	\$ 33,357
Other depreciable capital assets				
Buildings and improvements	244,492	-	-	244,492
Equipment	<u>6,748</u>	<u>-</u>	<u>-</u>	<u>6,748</u>
Total capital assets being depreciated	<u>251,240</u>	<u>-</u>	<u>-</u>	<u>251,240</u>
Less accumulated depreciation for:				
Buildings and improvements	48,166	5,999	-	54,165
Equipment	<u>6,748</u>	<u>-</u>	<u>-</u>	<u>6,748</u>
Total accumulated depreciation	<u>54,914</u>	<u>5,999</u>	<u>-</u>	<u>60,913</u>
Total capital assets being depreciated, net	<u>196,326</u>	<u>(5,999)</u>	<u>-</u>	<u>190,327</u>
Total capital assets, net	<u>\$ 229,683</u>	<u>\$ (5,999)</u>	<u>\$ -</u>	<u>\$ 223,684</u>

Depreciation for the year ended June 30, 2006 was \$5,999.

6. TRANSACTIONS WITH RELATED PARTIES

The Association had an agreement with Eastern Illinois University to coordinate the University's alumni activities. The University agreed to provide the Association with money or in-kind services in an amount not to exceed the Association's cost of coordinating these activities. The Association has also agreed to pay the University for all facilities, services, and resources used. The payment is to be either in the form of money or its equivalent in services or resources.

During the year ended June 30, 2006, the University provided the Association with \$27,225 in services in accordance with the contract.

In fulfilling its fiscal year 2006 contract with the University, the Association incurred \$170,361 of expenses and \$27,225 of in-kind expenses. Included in the fiscal year 2006 expenses of \$170,361 are unrestricted gifts/grants of \$56,941 to the University. In addition, the Association provided the use of its facilities at no charge to the University. The value of these facilities was \$47,536 for the year ended June 30, 2006. These amounts are not reflected in the financial statements. Since fiscal year

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1984, the Association has provided \$360,787 more in benefits than it has received from the University.

7. ROYALTIES

The Association entered into a new agreement with a bank in fiscal year 2005, whereby the Association and the bank will market the bank's credit card services to members of the Association (plus other participants mutually agreed to by the Association and the bank) using the Association's name and logo. In conjunction with this agreement, the Association receives certain fees and royalties based upon each new account opened and amounts charged on these accounts. Under the agreement, the Association is to receive royalty advances totaling \$700,000 over seven years (subject to meeting certain conditions defined in the agreement). Additionally, the Association is to receive annual sponsorship payments of \$10,000 over the same seven year period. These payments, totaling \$770,000 were recognized as revenue during fiscal year 2005, at the present value of estimated future cash flows, see note 4. The Association has received \$220,000 on this agreement to date. The Association considers the receivable to be fully collectible and no allowance for doubtful accounts is considered necessary at year-end.

In addition, the Association entered into agreements with an insurance vendor and a tour operator vendor. The insurance vendor offers short-term major medical insurance to new graduates and alumni. The Association will receive a royalty of 3% to 4% on policies issued. The tour operator offers Association members special tour travel packages. The Association receives royalties and one host trip after the tour has reached a minimum of twenty paid passengers. Royalties range from 5% of the revenue to \$75 to \$100 per paid passenger, depending on the program. The insurance program expires on August 16, 2007, and the travel program can be cancelled upon 30 days written notice. The Association received royalties from these agreements of \$3,085 in fiscal year 2006.

8. RISK MANAGEMENT

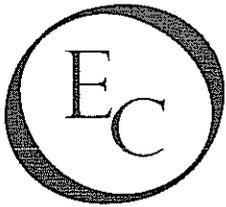
The Association is exposed to various risks of loss including, but not limited to, general liability, property casualty and director and officer liability. The Association is liable for up to \$250/year deductible for property damage and up to \$2,500/year deductible for director and officer liability. 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.

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9. FUNCTIONAL CLASSIFICATION OF EXPENSES

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

Institutional support	\$ 129,646
Depreciation	<u>5,999</u>
	<u>\$ 135,645</u>



**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 Alumni Association, Inc. (Association), 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 16, 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 Association'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 Association'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 Association 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 16, 2006