STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT
For the Year Ended June 30, 2011

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

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2011

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The University's Compliance Examination (including the Single Audit) for the year ended June 30, 2011, which includes the reports of independent auditors, Schedule of Findings and Questioned Costs, and Supplementary Information for State Compliance Purposes, has been issued under separate cover.

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY

UNIVERSITY OFFICIALS

President	Dr. William L. Perry
Provost and Vice President for Academic Affairs	Dr. Blair M. Lord
Vice President for Business Affairs	Dr. William V. Weber
Vice President for Student Affairs	Dr. Daniel P. Nadler
Vice President for University Advancement	Mr. Robert K. Martin
Director of Business Services and Treasurer	Mr. Paul A. McCann, CPA
General Counsel	Mr. Robert L. Miller
Director of Internal Auditing	Ms. Sharon K. McRaven, CPA, CIA

University offices are located at:

600 Lincoln Avenue
Charleston, Illinois 61920

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDINGS

The auditors identified matters involving the University's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings listed in the table of contents, as finding 11-1, (Inaccurate Accounting for Participation in a Public Entity Risk Pool) and finding 11-2, (Inaccurate Capital Asset Accounting and Depreciation Calculations).

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with University personnel at an exit conference on January 23, 2012. Attending were:

Eastern Illinois University
William Weber, Vice President of Business Affairs
Paul McCann, Director of Business Services and Treasurer
Michael Hutchinson, Interim Assistant Comptroller
Tami Babbs, Interim Assistant Comptroller
Sherry McRaven, Director of Internal Audit
Kathy Reed, Assistant Vice President – Information Technology Services

Office of the Auditor General
Daniel J. Nugent, Audit Manager

E. C. Ortiz & Co. LLP
Marites Sy, Partner
Shirley Trinidad, Manager

The responses to the recommendations were provided by Paul McCann, Director of Business Services and Treasurer, in a letter dated January 31, 2012.

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
State of Illinois - Eastern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the State of Illinois - Eastern Illinois University and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2011, which collectively comprise the State of Illinois - Eastern Illinois University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois - Eastern Illinois University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the State of Illinois – Eastern Illinois University's June 30, 2010 financial statements and, in our report dated April 1, 2011, we expressed unqualified opinions on the respective financial statements of the business-type activities and the aggregate discretely presented component units. We did not audit the financial statements of the aggregate discretely presented component units, as described in Note 1 of the financial statements. Those financial statements were audited by other auditors whose report thereon has been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinions.

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In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of State of Illinois - Eastern Illinois University, as of June 30, 2011, and the respective changes in its financial position and its cash flows, where applicable, 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 January 31, 2012 on our consideration of the State of Illinois - Eastern Illinois University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois - Eastern Illinois University's basic financial statements. The Unaudited Data Required by Revenue Bond Resolutions is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Unaudited Data Required by Revenue Bond Resolutions has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we express no opinion on it.

In connection with our audit, nothing came to our attention that caused us to believe that the State of Illinois - Eastern Illinois University Auxiliary Facilities System was not in compliance with any of the fund accounting covenants of the Resolutions of the Eastern Illinois University Auxiliary Facilities System Revenue Bonds (Series 2005, 2008, and 2008B).

E.C. Ortiz & Co., LLP

January 31, 2012

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

This section of the Eastern Illinois University (the University) annual financial report presents management's discussion and analysis (MD&A) of the financial performance of the University during the fiscal year ended June 30, 2011 with comparative information for the year ended June 30, 2010. 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 the University's management.

Reporting Entity

Eastern Illinois University is an institution of higher education and is considered to be a component unit of the State of Illinois (the State) because the Governor of the State of Illinois appoints its Board of Trustees. Accordingly, the University is included in the State's financial statements as a discretely presented component unit. Transactions with the State of Illinois relate primarily to appropriations for operations, grants from various State agencies, funding of capital projects and payments for employee benefits.

The University is a comprehensive, regional service institution located in Charleston, Illinois on approximately 320 acres. The University consists of 72 buildings, including 12 residence halls and 17 apartment buildings. The University enrolls approximately 12,000 students and employs approximately 1,800 full time faculty and staff. The University is primarily an undergraduate institution. Originally established in 1895 as a teachers' college, today the University encompasses four colleges and a graduate school. Undergraduate degrees are offered through the College of Arts and Humanities, the Lumpkin College of Business and Applied Sciences (which includes the School of Family and Consumer Sciences and the School of Technology), the College of Sciences, and the College of Education and Professional Studies. Master degrees, and in some cases specialist degrees, are offered at the graduate level in each of the colleges. In addition to its on-campus programs, the University maintains a strong continuing education program.

Using the Annual Report

These financial statements are prepared in accordance with 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 - 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 University, the results of operations and cash flows of the University as a whole.

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 financial statements encompass the University and its discretely presented component units. The Combining Statements of Net Assets; Combining Statements of Revenues, Expenses and Changes in Net Assets; and Combining Statements of Cash Flows show the combining of the discretely presented component units and are not discussed in this MD&A. The accompanying notes to the financial statements provide more detailed information regarding the items presented on the face of the financial statements. Information regarding these component units, including their separately issued financial statements, is summarized in Note 1 to the financial statements. This MD&A focuses on the University excluding the discretely presented component units. MD&A for these component units is included in their separately issued financial statements. An explanation of the financial statement presentation follows.

The Statement of Net Assets reflects the assets and liabilities of the University using the accrual basis of accounting and presents the financial position of the University 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 University. The increase or decrease in net assets that occur over time indicate the improvement or erosion of the University'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 non-operating. Under the current reporting model, a significant portion of the University's revenue is considered non-operating. State and capital appropriations of $47,794,654 and payments on behalf of the University of $48,399,928 are reported as non-operating revenues and results in the University showing an operating loss of $98,362,495 for the year ended June 30, 2011.

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

During the year ended June 30, 2011, the University's net assets increased by approximately $15.1 million to $213.0 million. This increase is primarily due to an increase in State payments on behalf of the University and an increase in grant revenues, primarily the student financial aid grants.

Statement of Net Assets

Condensed Statement of Net Assets, as of June 30,

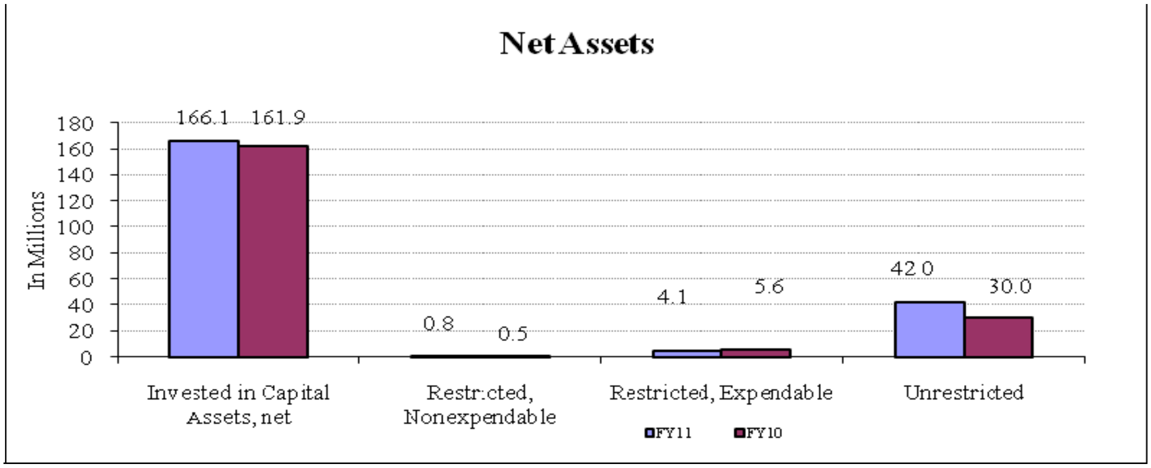
	2011	2010
Assets		
Current assets	$ 82,140,119	$ 100,451,066
Noncurrent assets		
Capital assets, net	292,808,934	269,602,692
Other	8,529,946	7,835,287
Total noncurrent assets	301,338,880	277,437,979
Total assets	$ 383,478,999	$ 377,889,045
Liabilities		
Current liabilities	$ 30,201,531	$ 32,522,346
Noncurrent liabilities	140,263,733	147,405,992
Total liabilities	170,465,264	179,928,338
Net Assets		
Invested in capital assets, net	166,087,461	161,921,484
Restricted		
Nonexpendable	847,247	459,477
Expendable	4,127,572	5,574,655
Unrestricted	41,951,455	30,005,091
Total net assets	213,013,735	197,960,707
Total liabilities and net assets	$ 383,478,999	$ 377,889,045

University assets totaled $383.5 million as of June 30, 2011. The largest asset of the University is its investment in land, buildings and equipment, which totaled approximately $292.8 million at June 30, 2011.

University liabilities totaled approximately $170.5 million as of June 30, 2011. Long-term debt of approximately $149.9 million as of June 30, 2011, is the largest portion of the liability. Long-term liabilities consisted of notes, leases and bonds payable, Certificates of Participation, accrued compensated absences, housing and registration deposits, and federal loan program contributions refundable to the federal government.

The University's current assets of approximately $82.1 million as of June 30, 2011 were sufficient to cover the current liabilities of approximately $30.2 million as of June 30, 2011. The current ratio of current assets to current liabilities is $2.72 in current assets for every $1 in current liabilities at June 30, 2011.

The following graph shows net assets by classification and restriction:



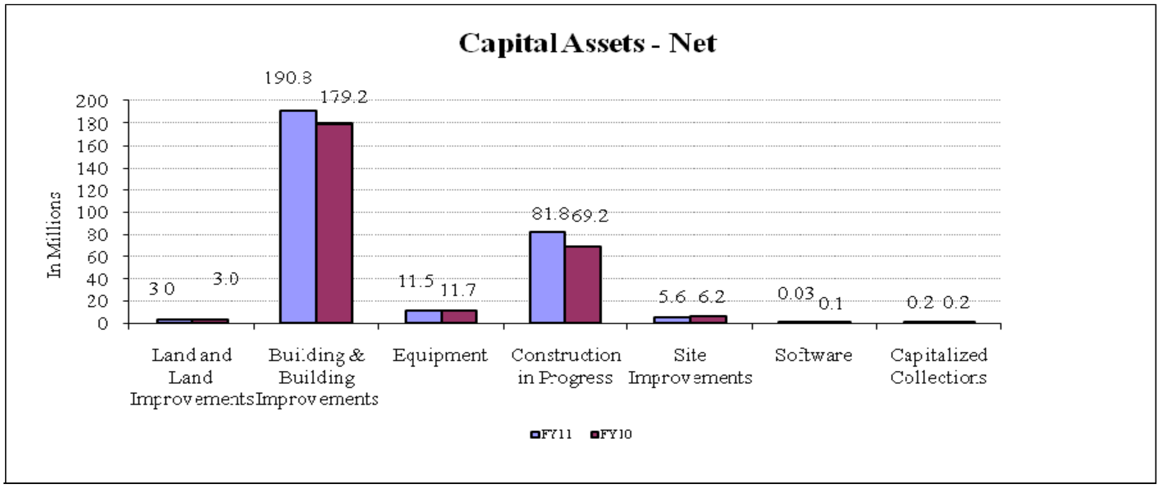
Capital Assets and Related Financing Activities

The Eastern Illinois University facilities include 72 buildings, totaling about 3 million gross square feet. Funding from State, private, borrowed, and internal sources are used to accomplish the capital objectives of the University.

The University continues to expand and renovate its campus facilities. University capital additions totaled approximately $37.9 million for fiscal year 2011. During fiscal year 2011, the University completed a portion of its energy savings projects and residence hall renovation projects.

The University had approximately $31.8 million of bonded debt outstanding and $98.2 million of Certificates of Participation (COPS) outstanding as of June 30, 2011. For more information concerning Capital Assets, Construction in Progress, Bonds Payable, Lease Obligations, and COPS Payable see Notes 6, 7, 10, 11, 12 and 13.

The following chart shows the breakdown of the University's capital assets, net of depreciation, by category:



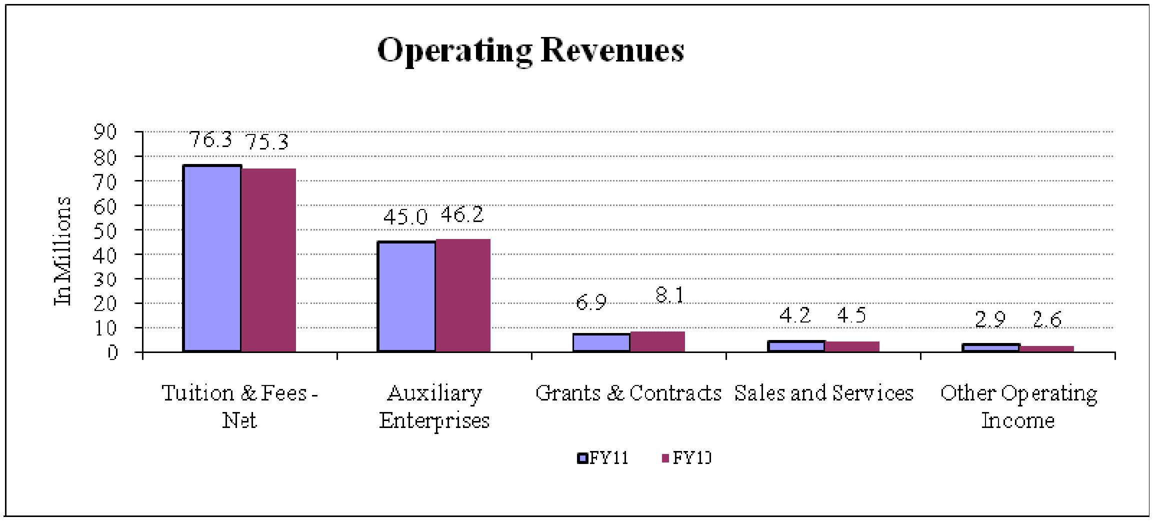
Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statement of Revenues, Expenses and Changes in Net Assets
For the years ended June 30,

	2011	2010
Operating revenues		
Tuition and fees, net	$ 76,341,978	$ 75,349,113
Grants and contracts	6,945,261	8,141,479
Auxiliary enterprises	44,953,396	46,248,703
Other operating revenues	7,104,438	7,124,108
Total operating revenues	135,345,073	136,863,403
Operating expenses	233,707,568	231,594,798
Operating loss	(98,362,495)	(94,731,395)
Nonoperating revenues (net of expenses)		
State appropriations	47,417,250	50,570,713
Payments on behalf of the University	48,399,928	44,755,254
Other nonoperating revenues - net	15,725,249	12,371,375
Net nonoperating revenues	111,542,427	107,697,342
Income before capital contributions	13,179,932	12,965,947
Capital appropriations	377,404	-
Transfers from Capital Development Board	240,471	1,212,275
Capital grants and gifts	1,255,221	450,244
Total increase in net assets	15,053,028	14,628,466
Net assets, beginning of year	197,960,707	183,332,241
Net assets, end of year	$ 213,013,735	$ 197,960,707

Operating Revenues

Operating revenues for fiscal year 2011 totaled $135.3 million. The most significant sources of operating revenues were tuition and fees, grants and contracts, and auxiliary services as shown in the graph below:



State appropriations to the University decreased from $50.6 million to $47.4 million.

During fiscal year 2005, the "Truth in Tuition" regulations took affect (a first time attendee is guaranteed the same tuition rate for four years as long as they are undergraduates). Because of this, tuition rates were increased by 6% for new students and approximately 8% for continuing students in fiscal year 2011. The University also implemented a student fee increase of 4% in fiscal year 2011. These account for the increase in tuition and fees.

Tuition and Fees

The University's tuition and fees have consistently been one of the lowest out of the nine State universities in Illinois. It is currently only one of two public universities to continue to offer textbook rental as a service to students, rather than requiring students to spend hundreds of dollars for textbooks each year. The following explains the rates for tuition and fees for a student attending 12 or more hours during the Fall and Spring semesters of fiscal years 2011 and 2010.

	2011	2010
Full-time Undergraduates		
In-State		
Continuing Non-guaranteed	$197.00/hour + $1,003.94 fees/semester	$183.00/hour + $987.57 fees/semester

	2011	2010
In-State		
New student FY07	$173.55/hour + $1,003.94 fees/semester	$173.55/hour + $987.57 fees/semester
New student FY08	$194.40/hour + $1,109.90 fees/semester	$194.40/hour + $1,063.53 fees/semester
New student FY09	$218.00/hour + $1,109.90 fees/semester	$218.00/hour + $1,063.53 fees/semester
New student FY10	$239.00/hour + $1,109.90 fees/semester	$239.00/hour + $1,063.53 fees/semester
New student FY11	$254.00/hour + $1,109.90 fees/semester	
Out of State		
Continuing Non-guaranteed	$590.00/hour + $1,003.94 fees/semester	$549.00/hour + $987.57 fees/semester
New students FY07	$520.65/hour + $1,003.94 fees/semester	$520.65/hour + $987.57 fees/semester
New students FY08	$583.20/hour + $1,109.90 fees/semester	$583.20/hour + $1,063.53 fees/semester
New students FY09	$654.00/hour + $1,109.90 fees/semester	$654.00/hour + $1,063.53 fees/semester
New students FY10	$717.00/hour + $1,109.90 fees/semester	$717.00/hour + $1,063.53 fees/semester
New students FY11	$762.00/hour + $1,109.90 fees/semester	
Full-time graduates		
In State	$254.00/hour + $1,006.94 fees/semester	$239.00/hour + $990.07 fees/semester
New students	$254.00/hour + $1,112.90 fees/semester	$239.00/hour + $1,066.03 fees/semester
Out of State	$686.00/hour + $1,006.94 fees/semester	$717.00/hour + $990.07 fees/semester
New students	$686.00/hour + $1,112.90 fees/semester	$717.00/hour + $1,066.03 fees/semester

Room and Board

The University currently has 12 traditional residence halls and a village of fraternity and sorority residences ("Greek Court"), with a capacity of approximately 4,700 students. In addition, there are 154 married and graduate student apartments ("University Apartments") and 146 undergraduate apartment units in 11 buildings ("University Court"). For Fall 2010, the residence halls were about 74% occupied; the University Apartments were about 98% occupied; and the University Court was 100% occupied.

The following table outlines the rates charged for room and board:

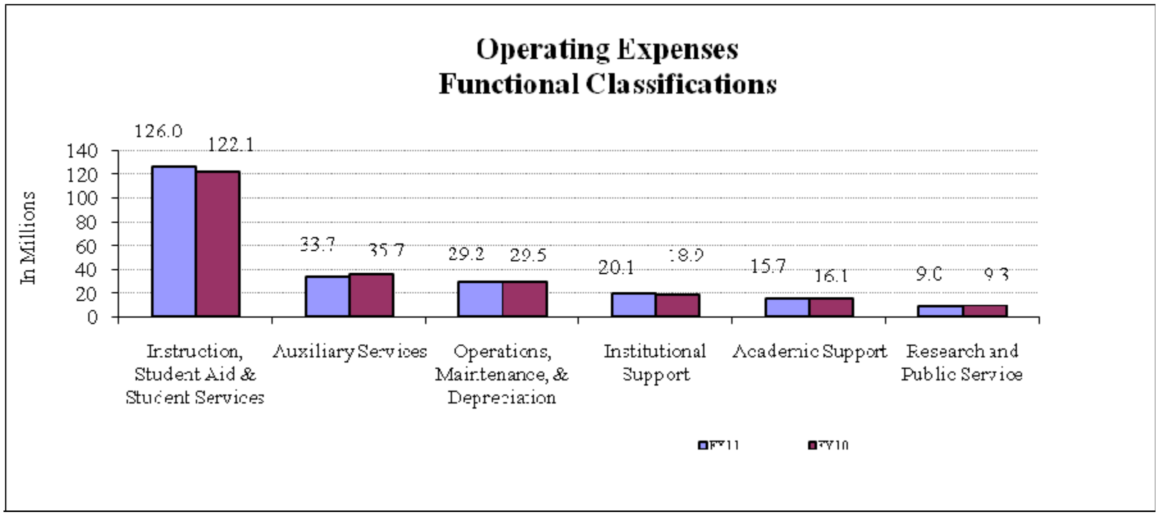
	2011	2010
University Apartments		
Efficiency	$438/month	$425/month
One bedroom	$460/month	$447/month
Super efficiency	$409/month	$398/month
University Court	Rates vary from $2,331 to $3,116/semester	Rates vary from $2,263 to $3,025/semester
Residence Halls		
7 plus meal plan	$3,808/semester	$3,584/semester
10 plus meal plan	$3,977/semester	$3,743/semester
12 plus meal plan	$4,127/semester	$3,884/semester
15 plus meal plan	$4,292/semester	$4,039/semester

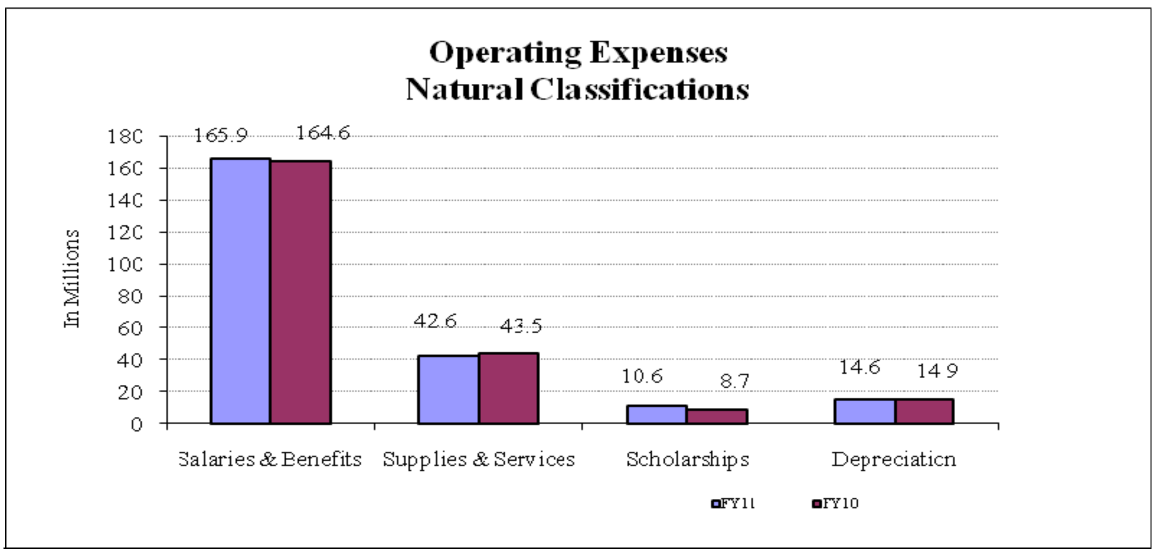
The Plus Meal Option permits each student the flexibility to make purchases at various campus locations, including any residence hall dining center, the food court within the University Union, and campus convenience centers.

Operating Expenses

GASB Statement No. 35 gives the reporting entities the choice of reporting expenses in functional or natural classifications. The University chose to report the expenses in their functional categories on the face of the statement and has displayed the natural categories in the footnotes to the financial statements. The operating expenses for fiscal year 2011, including depreciation of $14.6 million, totaled $233.7 million. Under the functional classifications, $126.0 million, or 54%, was used for instruction, student aid, and student services; $33.7 million, or 14%, was used for auxiliary services; $29.2 million, or 12%, was for operations and maintenance of plant and depreciation; $20.1 million, or 9%, was used for institutional support, which includes such areas as computer services and University police; $15.7 million, or 7%, was used for academic support, for such areas as the library and various dean's offices; and $9.0 million, or 4%, was used for research and public service, for such areas as grants and contracts. Under the natural classifications, $165.9 million, or 71%, was used for salaries and benefits; $42.6 million, or 18%, was used for supplies, contractual services, utilities, travel, repairs and maintenance and other; $10.6 million, or 5%, was used for scholarships; and $14.6 million, or 6%, was depreciation.

Operating expenses are shown in the graphs on the next page, by both functional and natural classifications.





Other

The State appropriation was the largest source of non-operating revenues at $47.4 million in fiscal year 2011.

Interest expense on outstanding debt was $4.7 million for fiscal year 2011; this was the largest category of non-operating expenses.

Statement of Cash Flows

The Statement of Cash Flows provides information about the University's sources and uses of cash and cash equivalents during the fiscal year.

Condensed Statement of Cash Flows
For the Years Ended June 30,

	2011	2010
Cash provided by (used in):		
Operating activities	$ (35,974,790)	$ (37,460,984)
Noncapital financing activities	60,273,260	61,181,607
Capital and related financing activities	(50,876,817)	10,738,081
Investing activities	106,715	159,290
Net (decrease) increase in cash and cash equivalents	(26,471,632)	34,617,994
Cash and cash equivalents, beginning of year	70,437,965	35,819,971
Cash and cash equivalents, end of year	$ 43,966,333	$ 70,437,965

Major sources of funds included in operating activities are student tuition and fees, and auxiliary services. Student tuition and fees provided $75.9 million for fiscal year 2011. Auxiliary enterprises income provided $44.6 million for 2011. The major source of funds included in noncapital financing activities is state appropriations, which provided $39.9 million for 2011.

The net cash used in capital and related financing activities represents numerous purchases of capital assets as well as costs incurred for many campus construction projects in progress.

The University's Economic Outlook

The University's mission is to "provide superior, yet accessible, undergraduate and graduate education." The University's ability to meet that mission is directly related to its enrollment, tuition and fee rates, and State support.

Appropriations from the State of Illinois represent a significant, but decreasing, portion of operating support for University programs. State appropriations declined by approximately $3,153,500 from fiscal year 2010 to 2011. For fiscal year 2012, State appropriations decreased by an additional $543,800.

Although the University's operating budget continues to grow, we project that the State's share of funding will continue to decline. As we navigate the financial uncertainties of the State and nation, we will continue to manage our resources with care and diligence. The University remains committed to managing tuition levels to meet its mission of superior, yet accessible, education.

In 2003, Public Act 93-0228 was enacted. This act placed a limitation on increases in tuition at Illinois public institutions of higher education. For students that initially enroll in the University after the 2003-04 academic year, the tuition charged to an undergraduate student cannot increase, above the amount charged when the student enrolled, for four continuous academic years, with limited exceptions. Consequently, the University must establish a tuition rate for incoming students that takes into account all potential cost increases and the rate of inflation. For the fall semester of 2011, the University increased tuition for incoming students by 6% over the rate paid by students starting in the fall semester of 2010. The political climate for tuition increases is uncertain, and consequently, the University is unable to estimate what, if any, increase may occur for the fall semester of 2012.

It is the plan of the University to maintain a stable enrollment of approximately 11,600 students. The fall semester of 2011 enrollment was 11,178, a decrease of 3.9% from the fall semester of 2010. The University does not anticipate any change to its plan in the foreseeable future and has taken several initiatives to increase enrollment. Increasing institutional scholarships and tuition waivers and actively recruiting students from border states are two of these initiatives. Likewise, it is the University's plan to maintain stable occupancy in University owned housing. In fall semester of 2011, the University had 3,546 students in University owned housing, a decrease of 6.3% from the fall semester of 2010.

University owned housing rates are not under the same limitations as tuition. However, they are limited by rates charged in the local housing market for similar accommodations. All freshman are required to live in University owned housing, and all other students are encouraged to live there, because it has been the University's experience that students living in University owned housing graduate at a higher rate and with higher grade point averages. For the fall semester of 2011, the typical room and board rate for a full time student was $4,116, an increase of 3.5% from fall semester of 2010.

The University currently has a two-year agreement with the University Professionals of Illinois (UPI) Local 4100 (the union representing University faculty members). UPI represents almost 700 faculty members on campus and is the single largest union representing employees on campus. During fiscal year 2011, the University negotiated four smaller collective bargaining agreements and another is in process.

During fiscal year 2011, work on the new biomass-fired Renewable Energy Center continued, with its grand opening scheduled for October, 2011. Energy savings from the Renewable Energy Center and other energy conservation projects will generate enough cash to repay the debt service on the Certificates of Participation that were issued to fund this project.

As other funding sources decline, private gifts are an important source of funding for University operations. In association with the Eastern Illinois University Foundation, almost $2.8 million was raised in new gifts and additions to the endowment during fiscal year 2011. The Foundation's annual return on its endowment in fiscal year 2011 was 21.5%, which is better than the estimated median National Association of College and University Business Officers institution increase of 19.8%. With public financing representing a smaller portion of the University's budget, private philanthropy will continue to grow in importance.

During the fall of 2010, the University announced its first comprehensive fundraising campaign, termed Expect Greatness, with a goal of raising $50 million. The gifts from this campaign will be used for the following priorities:

- Student scholarships and assistantships
- Attracting and retaining world-class faculty and supporting their research
- Capital improvement projects, including a new science center
- Developing and expanding programs, including autism, ethics, community service, arts, and speakers

The campaign has secured around 92% of its goal, or approximately $46.1 million, with the number of employees giving up 75% over the prior year. The $46.1 million includes deferred giving through estates and life insurance contracts.

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2011
(With Comparative Totals for 2010)

	University		Component Units	
	2011	**2010**	**2011**	**2010**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 41,601,939	$ 67,499,797	$ 807,606	$ 778,120
Restricted cash and cash equivalents	2,364,394	2,938,168	2,902,903	3,005,742
Short-term investments	245,000	250,000	466,806	513,866
Restricted short-term investments	16,397	14,244	2,872,973	2,478,703
Accounts receivable, net of allowance for doubtful accounts	13,181,079	12,458,834	340,359	153,742
State appropriation receivable	20,815,237	13,266,497	-	-
Interest receivable	991	2,194	-	5,262
Inventories	2,057,629	1,734,194	59,200	48,000
Notes receivable, current portion, net of allowance for doubtful accounts	956,821	922,730	-	-
Other assets	900,632	1,364,408	2,777	21,448
Total current assets	82,140,119	100,451,066	7,452,624	7,004,883
Noncurrent assets:				
Restricted cash and cash equivalents	-	-	337,515	448,667
Notes receivable, less current portion, net of allowance for doubtful accounts	5,413,588	5,332,271	-	-
Endowment investments	550,971	459,477	35,230,786	33,728,476
Restricted investments	-	-	21,727,404	14,453,102
Other long-term investments	-	-	1,118,064	930,309
Other long-term assets	2,565,387	2,043,539	313,608	15,351
Capital assets, net of accumulated depreciation	292,808,934	269,602,692	2,065,476	2,100,118
Total noncurrent assets	301,338,880	277,437,979	60,792,853	51,676,023
TOTAL ASSETS	$ 383,478,999	$ 377,889,045	$ 68,245,477	$ 58,680,906
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued liabilities	$ 16,649,738	$ 19,736,802	$ 11,920	$ 37,362
Deferred revenues	3,940,806	3,855,752	-	-
Long-term liabilities, current portion	9,610,987	8,929,792	217,769	209,698
Demand mortgage payable	-	-	1,387,238	1,437,238
Total current liabilities	30,201,531	32,522,346	1,616,927	1,684,298
Noncurrent liabilities:				
Long-term liabilities, less current portion	134,552,909	141,685,132	791,962	784,366
Due to others	-	-	6,281,523	5,679,962
Federal loan program contributions refundable	5,710,824	5,720,860	-	-
Total noncurrent liabilities	140,263,733	147,405,992	7,073,485	6,464,328
Total liabilities	170,465,264	179,928,338	8,690,412	8,148,626
Net assets:				
Invested in capital assets, net of related debt	166,087,461	161,921,484	678,238	662,880
Restricted:				
Nonexpendable				
Scholarships and fellowships	847,247	459,477	-	-
Endowments	-	-	35,739,020	34,177,143
Expendable				
Scholarships and fellowships	87,125	64,697	-	-
Instructional department uses	2,090,517	2,075,257	-	-
Loans	1,366,007	1,364,792	-	-
Debt service	583,923	2,069,909	-	-
Other	-	-	20,736,974	13,330,054
Unrestricted	41,951,455	30,005,091	2,400,833	2,362,203
Total net assets	213,013,735	197,960,707	59,555,065	50,532,280
TOTAL LIABILITIES AND NET ASSETS	$ 383,478,999	$ 377,889,045	$ 68,245,477	$ 58,680,906

See accompanying notes to basic financial statements.

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for 2010)

	University		Component Units	
	2011	**2010**	**2011**	**2010**
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of $13,069,222 in fiscal year 2011 and $10,869,400 in fiscal year 2010)	$ 76,341,978	$ 75,349,113	$ -	$ -
Federal grants and contracts	2,035,912	2,963,553	-	-
State grants and contracts	2,475,164	2,534,502	-	-
Local grants and contracts	420,163	310,956	-	-
Private grants and contracts	2,014,022	2,332,468	-	-
Sales and services of educational departments	4,157,156	4,486,307	-	-
Auxiliary enterprises (net of scholarship allowances of $2,684,744 in fiscal year 2011 and $2,284,702 in fiscal year 2010)	44,953,396	46,248,703	-	-
Gifts	-	-	2,274,824	1,420,944
Service contract with the University	-	-	244,399	221,108
Budget allocation from the University	-	-	181,238	151,500
Membership dues	-	-	59,280	63,049
Merchandise sales	-	-	-	351
Royalties	-	-	15,733	20,769
Alumni promotions	-	-	815	1,280
Other operating revenues	2,947,282	2,637,801	273,826	292,491
Total operating revenues	135,345,073	136,863,403	3,050,115	2,171,492
OPERATING EXPENSES				
Educational and general				
Instruction	94,171,743	93,706,501	-	-
Research	1,147,875	1,231,187	-	-
Public service	7,896,281	8,044,122	-	-
Academic support	15,736,629	16,095,347	-	-
Student services	20,871,872	19,321,993	-	-
Institutional support	20,078,350	18,942,757	1,232,247	1,035,650
Operations and maintenance of plant	14,633,999	14,594,327	-	-
Student aid	10,905,280	9,073,353	-	-
Auxiliary enterprises	33,661,480	35,716,891	-	-
Depreciation expense	14,604,059	14,868,320	34,642	34,642
Total operating expenses	233,707,568	231,594,798	1,266,889	1,070,292
Operating income (loss)	(98,362,495)	(94,731,395)	1,783,226	1,101,200

See accompanying notes to basic financial statements.

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS *(Continued)*
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for 2010)

	University		Component Units	
	2011	**2010**	**2011**	**2010**
NONOPERATING REVENUES (EXPENSES)				
State appropriations	$ 47,417,250	$ 47,613,750	$ -	$ -
State appropriations through Federal ARRA funds	-	2,956,963	-	-
Payments on behalf of the University	48,399,928	44,755,254	-	-
Gifts	1,729,803	1,717,722	-	-
Investment income (net)	108,015	155,102	1,476,433	1,026,542
Net increase in fair value of investments	86,145	36,791	6,908,333	4,374,483
Scholarships	-	-	(814,851)	(892,838)
Distributions to annuity/unitrust beneficiaries	-	-	(128,951)	(125,348)
Actuarial adjustments	-	-	806	43,008
Interest on capital asset-related debt	(4,731,328)	(4,503,647)	(74,133)	(82,496)
Nonoperating grants and contracts	16,985,494	14,309,497	-	-
Amortization of bond costs, premiums, and discounts	(147,037)	(57,658)	-	-
Grants to the University	-	-	(1,408,175)	(1,610,092)
Payments to the Foundation	(8,340)	(6,740)	-	-
Loss on disposal of capital assets	(58,895)	(62,856)	-	-
Other nonoperating revenues	1,761,392	783,164	-	-
Total nonoperating revenues	111,542,427	107,697,342	5,959,462	2,733,259
Income before capital contributions	13,179,932	12,965,947	7,742,688	3,834,459
Capital appropriations	377,404	-	-	-
Capital grants and gifts	1,255,221	450,244	-	-
Transfers from Capital Development Board	240,471	1,212,275	-	-
Additions to permanent endowments	-	-	1,280,097	1,075,528
Increase in net assets	15,053,028	14,628,466	9,022,785	4,909,987
NET ASSETS				
Net assets, beginning of year	197,960,707	183,332,241	50,532,280	45,622,293
Net assets, end of year	$ 213,013,735	$ 197,960,707	$ 59,555,065	$ 50,532,280

See accompanying notes to basic financial statements.

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for 2010)

	University		Component Units	
	2011	**2010**	**2011**	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	$ 75,884,857	$ 73,241,372	$ -	$ -
Grants and contracts (noncapital)	7,594,800	7,963,396	-	-
Sales and services of educational departments	4,076,027	4,399,230	-	-
Auxiliary enterprise	44,555,000	47,457,103	-	-
Payments to suppliers	(42,800,524)	(43,517,381)	(886,621)	(757,048)
Payments to employees	(109,401,962)	(111,433,408)	-	-
Payments for employee benefits	(8,309,377)	(8,668,417)	-	-
Payments for scholarships and fellowships	(10,555,901)	(8,679,413)	-	-
Federal loan program contributions refundable	(10,036)	(15,278)	-	-
Loans issued to students	(1,225,241)	(1,633,040)	-	-
Collection of loans from students	1,109,834	1,585,607	-	-
Royalties	-	-	122,271	123,956
Membership dues	-	-	55,980	61,084
Service contract with the University	-	-	78,625	78,625
Gifts	-	-	1,611,556	1,423,285
Promotional revenues	-	-	815	1,280
Other receipts	3,107,733	1,839,245	273,827	292,842
Net cash provided from (used in) operating activities	$ (35,974,790)	$ (37,460,984)	$ 1,256,453	$ 1,224,024
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	39,868,510	41,382,924	-	-
State appropriations through Federal ARRA funds	-	2,956,963	-	-
Private gifts other than capital purposes	1,868,548	1,578,798	-	-
Payments to the Foundation	(8,340)	(6,740)	-	-
Scholarships	-	-	(818,099)	(891,880)
Distributions to annuity/unitrust beneficiaries	-	-	(215,013)	(205,966)
Agency receipts	-	-	217,063	192,211
Agency payments	-	-	(244,082)	(213,199)
Other nonoperating activities	1,761,392	846,447	1,248,755	1,062,966
Nonoperating grants	16,783,150	14,423,215	(1,408,175)	(1,610,092)
Net cash provided by (used in) noncapital financing activities	$ 60,273,260	$ 61,181,607	$ (1,219,551)	$ (1,665,960)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from bond issue/notes payable	-	84,930,000	-	-
Principal paid on capital debt and leases	(6,287,617)	(5,945,214)	-	-
Interest paid on capital debt and leases	(4,736,569)	(4,151,498)	(74,670)	(82,496)
Mortgage loan payment	-	-	(50,000)	-
Capital appropriations	377,404	-	-	-
Capital grants and gifts	1,233,468	592,928	-	-
Bond issue costs paid	-	(2,022,280)	-	-
Purchases of capital assets	(41,463,503)	(62,665,855)	-	-
Net cash provided by (used in) capital and related financing activities	$ (50,876,817)	$ 10,738,081	$ (124,670)	$ (82,496)

See accompanying notes to basic financial statements.

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS *(Continued)*
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(With Comparative Totals for 2010)

	University		Component Units	
	2011	**2010**	**2011**	**2010**
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the sale and maturities of investments	$ 336,145	$ 291,649	$ 3,177,648	$ 4,429,453
Interest received on investments	109,218	154,432	1,520,436	1,044,124
Sale of gift stock and real estate			97,963	27,233
Purchase of investments	(338,648)	(286,791)	(4,892,784)	(5,480,524)
Net cash provided by investing activities	106,715	159,290	(96,737)	20,286
Net increase (decrease) in cash and cash equivalents	(26,471,632)	34,617,994	(184,505)	(504,146)
Cash and cash equivalents, beginning of year	70,437,965	35,819,971	4,232,529	4,736,675
Cash and cash equivalents, end of year	$ 43,966,333	$ 70,437,965	$ 4,048,024	$ 4,232,529
Reconciliation of net operating income (loss) to net cash provided from (used in) operating activities				
Operating income (loss)	$ (98,362,495)	$ (94,731,395)	1,783,226	$ 1,101,200
Adjustments to reconcile operating income (loss) to net cash provided from (used in) operating activities:				
Depreciation	14,604,059	14,868,320	34,642	34,642
Bad debt	-	-	800	500
Payments on behalf of the University	48,399,928	44,755,254	-	-
Noncash stock, real estate gifts	-	-	(74,354)	(15,884)
Changes in assets and liabilities:				
Accounts receivable	(728,252)	(1,098,757)	(592,213)	17,060
Royalties receivable	-	-	106,538	-
Inventories	(323,435)	242,342	-	-
Notes receivable	(115,408)	(47,432)	-	-
Other assets	(282,458)	(369,933)	18,671	85,060
Accounts payable and accrued liabilities	752,958	(227,152)	(20,857)	1,446
Deferred revenues	176,412	(108,570)	-	-
Compensated absences	(427,375)	(286,070)	-	-
Federal loan program contributions refundable	(10,036)	(15,278)	-	-
Other long-term liabilities	70,910	(813,366)	-	-
Deposits	270,402	371,053	-	-
Net cash provided from (used in) operating activities	$ (35,974,790)	$ (37,460,984)	$ 1,256,453	$ 1,224,024
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS				
Change in fair value of investments	$ 86,145	$ 36,791	$ 6,908,333	$ 4,374,483
Change in interest receivable affecting interest received	$ (1,203)	$ 665	$ -	$ -
Change in accrued interest affecting interest paid	$ (5,241)	$ 367,925	$ (537)	$ -
Change in accrued costs relating to capital assets	$ (3,615,156)	$ 8,438,966	$ -	$ -
Transfers of capital assets	$ 240,471	$ 1,212,275	$ -	$ -

See accompanying notes to basic financial statements.

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS

	June 30, 2011		
	Foundation	Alumni Association	Total
ASSETS			
Current assets			
Cash and cash equivalents	$ 438,839	$ 368,767	$ 807,606
Restricted cash and cash equivalents	2,902,903	-	2,902,903
Short-term investments	32,000	434,806	466,806
Restricted short-term investments	2,872,973	-	2,872,973
Accounts receivable, net of allowance for doubtful accounts	333,959	6,400	340,359
Interest receivable	-	-	-
Inventories	59,200	-	59,200
Other assets	1,766	1,011	2,777
Total current assets	6,641,640	810,984	7,452,624
Noncurrent assets			
Restricted cash and cash equivalents	337,515	-	337,515
Endowment investments	35,230,786	-	35,230,786
Restricted investments	21,727,404	-	21,727,404
Other long-term investments	-	1,118,064	1,118,064
Other long-term assets	302,508	11,100	313,608
Capital assets, net of accumulated depreciation	1,871,787	193,689	2,065,476
Total noncurrent assets	59,470,000	1,322,853	60,792,853
TOTAL ASSETS	$ 66,111,640	$ 2,133,837	$ 68,245,477
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities	$ 11,834	$ 86	$ 11,920
Long-term liabilities, current portion	217,769	-	217,769
Demand mortgage payable	1,387,238	-	1,387,238
Total current liabilities	1,616,841	86	1,616,927
Noncurrent liabilities			
Long-term liabilities, less current portion	791,962	-	791,962
Due to others	6,281,523	-	6,281,523
Total noncurrent liabilities	7,073,485	-	7,073,485
Total liabilities	8,690,326	86	8,690,412
Net assets			
Invested in capital assets, net of related debt	484,549	193,689	678,238
Restricted for:			
Nonexpendable endowment	35,739,020	-	35,739,020
Expendable	20,736,974	-	20,736,974
Unrestricted	460,771	1,940,062	2,400,833
Total net assets	57,421,314	2,133,751	59,555,065
TOTAL LIABILITIES AND NET ASSETS	$ 66,111,640	$ 2,133,837	$ 68,245,477

See accompanying notes to basic financial statements.

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
COMPONENT UNITS

	For the Year Ended June 30, 2011		
	Foundation	Alumni Association	Total
OPERATING REVENUES			
Gifts	$ 2,268,994	$ 5,830	$ 2,274,824
Service contract with the University	230,330	14,069	244,399
Budget allocation from the University	170,151	11,087	181,238
Membership dues	-	59,280	59,280
Merchandise sales	-	-	-
Royalties	-	15,733	15,733
Alumni promotions	-	815	815
Other operating revenues	273,492	334	273,826
Total operating revenues	2,942,967	107,148	3,050,115
OPERATING EXPENSES			
Educational and general			
Institutional support	1,093,577	138,670	1,232,247
Depreciation expense	28,643	5,999	34,642
Total operating expenses	1,122,220	144,669	1,266,889
Operating income (loss)	1,820,747	(37,521)	1,783,226
NONOPERATING REVENUES (EXPENSES)			
Investment income (net)	1,438,102	38,331	1,476,433
Net increase in fair market value of investments	6,811,232	97,101	6,908,333
Scholarships	(809,851)	(5,000)	(814,851)
Distributions to annuity/unitrust beneficiaries	(128,951)	-	(128,951)
Actuarial adjustments	806	-	806
Interest on capital asset-related debt	(74,133)	-	(74,133)
Grants to the University	(1,389,601)	(18,574)	(1,408,175)
Net nonoperating revenues	5,847,604	111,858	5,959,462
Income before capital contributions	7,668,351	74,337	7,742,688
Additions to permanent endownments	1,280,097	-	1,280,097
Increase in net assets	8,948,448	74,337	9,022,785
NET ASSETS			
Net assets, beginning of year	48,472,866	2,059,414	50,532,280
Net assets, end of year	$ 57,421,314	$ 2,133,751	$ 59,555,065

See accompanying notes to basic financial statements.

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
COMBINING STATEMENT OF CASH FLOWS
COMPONENT UNITS

	For the Year Ended June 30, 2011		
	Foundation	Alumni Association	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and vendors	$ (773,121)	$ (113,500)	$ (886,621)
Royalties	-	122,271	122,271
Membership dues	-	55,980	55,980
Gifts	1,605,726	5,830	1,611,556
Promotional revenues	-	815	815
Service contract with Eastern Illinois University	78,625	-	78,625
Other receipts	273,493	334	273,827
Net cash provided from operating activities	1,184,723	71,730	1,256,453
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Grants to the University	(1,389,601)	(18,574)	(1,408,175)
Scholarships	(813,099)	(5,000)	(818,099)
Distributions to annuity/unitrust beneficiaries	(215,013)	-	(215,013)
Agency receipts	217,063	-	217,063
Agency payments	(244,082)	-	(244,082)
Gifts received for endowment purposes	1,248,755	-	1,248,755
Net cash used in noncapital financing activities	(1,195,977)	(23,574)	(1,219,551)
CASH FLOWS FROM RELATED CAPITAL AND FINANCING ACTIVITIES			
Interest paid for capital debt and leases	(74,670)	-	(74,670)
Mortagage loan payment	(50,000)	-	(50,000)
Net cash used in capital and related financing activity	(124,670)	-	(124,670)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale and maturities of investments	1,614,421	1,563,227	3,177,648
Interest received on investments	1,476,842	43,594	1,520,436
Sale of gift stock and real estate	97,963	-	97,963
Purchase of investments	(3,285,962)	(1,606,822)	(4,892,784)
Net cash used in investing activities	(96,736)	(1)	(96,737)
Net increase (decrease) in cash and cash equivalents	(232,660)	48,155	(184,505)
Cash and cash equivalents, beginning of year	3,911,917	320,612	4,232,529
Cash and cash equivalents, end of year	$ 3,679,257	$ 368,767	$ 4,048,024
Reconciliation of operating income (loss) to net cash provided from operating activities			
Operating income (loss)	$ 1,820,747	$ (37,521)	$ 1,783,226
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation expense	28,643	5,999	34,642
Bad debt expense	800	-	800
Noncash stock, real estate gifts	(74,354)	-	(74,354)
Changes in assets and liabilities:			
Accounts receivable	(588,913)	(3,300)	(592,213)
Royalties receivable	-	106,538	106,538
Prepaid expense	18,692	(21)	18,671
Accounts payable	(20,892)	35	(20,857)
Net cash provided from operating activities	$ 1,184,723	$ 71,730	$ 1,256,453
NONCASH INVESTING TRANSACTIONS			
Change in fair value of investments	$ 6,811,232	$ 97,101	$ 6,908,333
Change in accrued interest affecting interest paid	$ (537)	$ -	$ (537)

See accompanying notes to financial basic statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Eastern Illinois University is a comprehensive, State-assisted, regional service institution. Established in 1895 as a normal school, Eastern is a multi-purpose institution, continuing its strong heritage in teacher preparation while at the same time offering a strong, comprehensive undergraduate program in the arts, sciences, humanities, and professions. The Graduate School complements and builds upon the undergraduate curriculum, providing programs of excellence at the master's and specialist's levels.

Financial Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Based upon the factors discussed below, these financial statements include the accounts of Eastern Illinois University (the University) as the primary government, and the component units, Eastern Illinois University Foundation (the Foundation) and Eastern Illinois University Alumni Association, Inc., (the Alumni Association), discretely presented.

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.

The University and the related organizations have also implemented GASB No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of GASB Statement No. 14, *The Financial Reporting Entity*) which 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; and 3) the resources held or received by the separate organization are significant to the primary government.

The Foundation is a legally separate, tax-exempt component unit. It acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Board of Directors of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University and its students, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. An audit of the Foundation's financial statements, for the fiscal year ended June 30, 2011, was conducted by an independent certified public accountant and can be obtained from the University's Administrative Office at 600 Lincoln Avenue, Charleston, Illinois 61920.

The Alumni Association is also a legally separate, tax-exempt component unit. The Alumni Association is governed by a separately elected Board of Directors and its primary functions are to foster loyalty and fellowship among the alumni of the University and to receive gifts, which are contributed for the welfare of the University. The Alumni Association uses its resources entirely or almost entirely for the direct benefit of the University or its constituents. In addition, the University is entitled to or has access to the majority of the resources of the Association, and such resources are significant to the University. Therefore, the Alumni Association is considered a component unit of the University and is discretely presented in the University's financial statements. An audit of the Alumni Association's financial statements, for the fiscal year ended June 30, 2011, was conducted by an independent certified public accountant and can be obtained from the University's Administrative Office at 600 Lincoln Avenue, Charleston, Illinois 61920.

Eastern Illinois University is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are also included in the State of Illinois' Comprehensive Annual Financial Report. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871 or accessing its website at www.ioc.state.il.us.

Financial Statement Presentation

The basic financial statements include prior year comparative information which has been derived from the University and the Component Units' 2010 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 University and Component Units' financial statements for the year ended June 30, 2010.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University'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 University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents

For purposes of the Statement of Cash Flows, the University 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 University 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 net increase (decrease) in fair value of investments in the Statement of Revenues, Expenses, and Changes in Net Assets.

Inventories

Inventories are carried at the lower of cost (first-in, first-out method) or market.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of Illinois. Accounts receivable also includes amounts due from the federal government, State and local governments, or private sources, in connection with the reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable is recorded net of estimated uncollectible amounts.

Restricted Assets

Restricted assets consist of cash and investments that are restricted by external sources and 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 University's capitalization policy for capital assets is as follows: equipment $5,000 or greater, land or buildings $100,000 or greater and site or 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.

The University purchases textbooks and library materials for its textbook rental service and library. The University capitalizes all library books and textbooks purchases.

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 site and building improvements, 5 years for library books, 4 to 7 years for equipment and 2 years for textbooks. Depreciation also includes amortization of capitalized leased equipment and purchased software.

Deferred Revenues

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

Compensated Absences

Employee vacation pay, sick pay, and compensable time are accrued at year-end for financial statement purposes. The liabilities outstanding are reported as accrued liabilities in the Statement of Net Assets, and the expenses incurred are reported as functionalized expenses in the Statement of Revenues, Expenses, and Changes in Net Assets.

Long-term Liabilities

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

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.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside 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.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, State appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

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

Income Taxes

The University, as a political subdivision of the State of Illinois, is excluded from Federal income taxes under Section 115(I) of the Internal Revenue Code, as amended.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. The Statement of Net Assets for fiscal year 2010 has been changed to reclassify restricted cash of certain funds to unrestricted.

Classification of Revenues

The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* such as State appropriations and investment income.

On-Behalf Payments for Fringe Benefits

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University has reported on-behalf payments made by the State of Illinois to the Department of Central Management Services State Employees Group Insurance Program and the State Universities' Retirement System of Illinois (SURS), totaling $48,399,928, representing $29,185,716 and $19,214,212 for group insurance and retirement costs, respectively. These costs are reflected as non-operating revenues and operating expenses with revenues reported as payments on behalf of the University and expenses allocated to each educational and general program.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as other federal, State or nongovernmental programs, are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

2. CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS

Cash and Deposits

The University maintains deposits at financial institutions authorized by the Board of Trustees. The carrying amount of the University's deposits was $16,233 as of June 30, 2011. These were fully covered by federal deposit insurance. In addition, the University had cash on hand in various petty cash and change funds in the amount of $35,940 as of June 30, 2011.

Investments

State statutes and the Board of Trustees authorize the University to invest in United States Government securities, securities guaranteed by the full faith and credit of the United States Government, interest-bearing savings accounts, certificate and time deposits in financial institutions fully insured by the FDIC, and any other security or investment permitted by law and approved by the Board. The Vice President for Business Affairs has the authority to prescribe investment guidelines consistent with the Board of Trustees' regulations, the provisions of the Public Funds Investment Act (30 ILCS 235/0.01 et seq.) and the Uniform Prudent Management of Institutional Funds Act (760 ILCS 51/1 et seq.).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University has established a maximum maturity of up to four years for any investment. State statutes limit maturity on commercial paper investments to 180 days. Effective maturity ranges for investments as of June 30, 2011 are as follows:

Effective Maturity	0-1 Year	1-5 Years	6-10 Years
Illinois Funds	$43,914,160	$ -	$ -
Mutual bond funds	-	31,163	102,888
	$43,914,160	$ 31,163	$ 102,888

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. Credit ratings for University investments are shown below. The bond funds are not rated. The University's investment policy has no specific guidelines addressing the credit rating of mutual bond funds.

Credit Rating	AAA	Not Rated
Illinois Funds	$43,914,160	$ -
Mutual bond funds	-	134,051
	$43,914,160	$134,051

Custodial Credit Risk

Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the University would not be able to recover value of deposits, investments or collateral securities that are in the possession of an outside party. All of the University's investments are held by a custodian in the University's name and are not subject to creditors of the custodial bank.

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

Concentration Risk

The University does not have any investments representing 5% or more of total assets in any single issuer other than the U.S. Government, its agencies or sponsored corporations. State statutes limit investment in short term debts of corporations to one-third of the agency's funds, and no more than 10% of any one corporation's outstanding obligations. The University has limited commercial paper investments to two million dollars per issuer.

The University has not held foreign currency positions other than the purchase of foreign payment drafts to vendors, 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 mutual funds have not disclosed to the University whether derivatives are used, held, or were written during the period covered by the financial statements.

<u>Reconciliation to the Statement of Net Assets</u>

A reconciliation of cash and investments as presented previously to amounts reported in the Statement of Net Assets as of June 30, 2011 are as follows:

	Current	Noncurrent	Total
Cash and cash equivalents	$41,601,939	$ -	$41,601,939
Restricted cash and cash equivalents	2,364,394	-	2,364,394
Short-term investments	245,000	-	245,000
Restricted investments	16,397	-	16,397
Endowment investments	-	550,971	550,971
	$44,227,730	550,971	$44,778,701

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

Cash deposits	$ 16,233
Petty cash funds	35,940
The Illinois Funds accounts	43,914,160
Bond mutual funds – Charles Schwab and Co., Inc.	134,051
Equity mutual funds – Charles Schwab and Co., Inc.	433,317
Certificate of deposit	245,000
	$ 44,778,701

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2011:

Sales and services	$ 2,190,724
Student tuition and fees	5,168,213
Auxiliary enterprises and other operating activities	5,404,129
Federal, State, and private grants and contracts	1,091,879
Others	5,196,409
Total	19,051,354
Less allowance for doubtful accounts	(5,870,275)
Net accounts receivable	$ 13,181,079

4. INVENTORIES

Inventories consisted of the following as of June 30, 2011:

Bookstore	$ 1,176,192
Facilities	591,256
Food services/housing	164,385
Union operation	57,156
Postage	43,072
Pharmacy	24,117
Others	1,451
	$ 2,057,629

5. NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the notes receivable as of June 30, 2011. Under the Program, the federal government provides funds for approximately 75% of the total contribution for student loans, with the University providing the balance. Under certain conditions, such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan. The federal government reimburses the University to the extent of 10% of the amounts forgiven for loans originated prior to July 1, 1993 under the Federal Perkins Loan Program. No reimbursements are provided for loans originated after this date. Amounts refundable to the U.S. Government upon cessation of the Program of $5,710,824 as of June 30, 2011, are reflected in the accompanying Statement of Net Assets as noncurrent liabilities.

As the University determines that loans are uncollectible and not eligible for reimbursement by the Federal government, the loans may be assigned to the U.S. Department of Education. The allowance for uncollectible loans only applies to University funded loans and the University portion of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. As of June 30, 2011, the allowance for uncollectible loans was $84,149.

6. CAPITAL ASSETS

	For the Year Ended June 30, 2011				
	6/30/2010	Additions	Deletions	Transfers	6/30/2011
Capital assets not being depreciated					
Land and land improvements	$ 2,968,015	$ -	$ -	$ -	$ 2,968,015
Capitalized collections	198,646	-	-	-	198,646
Construction in progress	69,201,059	32,634,254	30,631	(20,036,506)	81,768,176
Total capital assets not being depreciated	72,367,720	32,634,254	30,631	(20,036,506)	84,934,837
Capital assets being depreciated					
Site improvements	17,226,197	-	-	217,376	17,443,573
Buildings and building improvements	290,790,242	6,140	-	19,819,130	310,615,512
Equipment	67,083,172	5,255,838	5,931,709	-	66,407,301
Capital leases-equipment	50,585	-	-	-	50,585
Total capital assets being depreciated	375,150,196	5,261,978	5,931,709	20,036,506	394,516,971
Less accumulated depreciation for:					
Site improvements	11,046,394	810,577	-	-	11,856,971
Buildings and building improvements	111,540,700	8,301,608	-	77	119,842,385
Equipment	55,386,707	5,430,341	5,876,409	(77)	54,940,562
Capital leases-equipment	22,883	7,226	-	-	30,109
Total accumulated depreciation	177,996,684	14,549,752	5,876,409	-	186,670,027
Intangible assets being amortized					
Software	380,146	-	-	-	380,146
Less amortization	298,686	54,307	-	-	352,993
Total intangible assets being amortized	81,460	(54,307)	-	-	27,153
Total capital assets, being depreciated or amortized, net	197,234,972	(9,342,081)	55,300	20,036,506	207,874,097
Capital assets, net	$ 269,602,692	$ 23,292,173	$ 85,931	$ -	$ 292,808,934

7. CONSTRUCTION IN PROGRESS

Below is a listing of the major construction projects in progress as of June 30, 2011:

	Project Estimate	Expended to 6/30/11	Committed
Renewable Energy Center/ESCO III	$ 75,435,214	$ 69,374,844	$ 6,060,370
Lincoln Hall renovations	4,571,637	4,117,899	453,738
Electrical distribution upgrade	4,319,433	4,319,433	-
Residence hall sprinkler projects	3,204,287	1,641,923	1,562,364
Other miscellaneous	6,346,889	2,314,077	4,032,812
	$ 93,877,460	$ 81,768,176	$ 12,109,284

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30, 2011:

Accounts payable	$ 932,243
Accrued wages	7,193,363
Accrued expenses	7,918,055
Other	606,077
	$ 16,649,738

9. DEFERRED REVENUES

Deferred revenues consisted of the following as of June 30, 2011:

Tuition and fees	$ 2,058,390
Sales and services	369,716
Auxiliary enterprises	327,230
Grants and contracts	1,137,729
Miscellaneous	47,741
	$ 3,940,806

10. LONG-TERM LIABILITIES

		As of June 30, 2011				
		Balance 6/30/10	Additions	Reductions	Balance 6/30/11	Amounts due within one year
Revenue bonds, notes payable and Certificates of Participation						
Revenue bonds payable	(1)	$ 35,405,000	$ -	$ 3,620,000	$ 31,785,000	$ 3,780,000
Revenue bond discounts		(15,908)	-	(1,597)	(14,311)	(1,418)
Revenue bond premiums		641,044	-	203,032	438,012	152,366
Deferred accounting loss		(717,279)	-	(121,338)	(595,941)	(121,338)
Notes payable	(1)	54,070	-	26,268	27,802	27,802
Certificates of Participation (COPS)	(2)	100,805,000	-	2,630,000	98,175,000	2,810,000
COPS premium		21,826	-	12,000	9,826	6,682
COPS discount		(122,968)	-	(14,749)	(108,219)	(13,665)
Capital lease obligations	(3)	20,618	-	11,349	9,269	9,269
Other liabilities						
Accrued compensated absences	*	13,385,818	13,585	440,959	12,958,444	1,482,275
Deposits	*	1,137,703	341,311	-	1,479,014	1,479,014
Federal loan program contributions	*	5,720,860	-	10,036	5,710,824	-
Total long-term liabilities		$ 156,335,784	$ 354,896	$ 6,815,960	$ 149,874,720	$ 9,610,987

(1) See Note 11 for more information on revenue bonds and notes payable.
(2) See Note 12 for more information on Certificates of Participation.
(3) See Note 13 for more information on capital lease obligations.

* Due to limitations in the University's accounting system, the gross amounts for additions and reductions are not readily available for fiscal year 2011.

Total interest expense for the year ended June 30, 2011 was $4,731,328. There was $2,521,602 of interest capitalized as part of capital projects in progress during the year.

11. REVENUE BONDS AND NOTES PAYABLE

Revenue bonds payable consisted of the following as of June 30, 2011:

$19,345,000, Auxiliary Facilities System Revenue Bonds, Series 2005, term bonds due in annual installments (principal only) of $885,000 to $1,370,000 through April 1, 2013; $965,000 to $1,595,000 through April 1, 2018; $540,000 to $635,000 through April 1, 2023; $665,000 to $730,000 through April 1, 2026; interest ranges from 3.0% to 5.0%.	$ 14,570,000
$18,590,000 Auxiliary Facilities System Revenue Bonds, Series 2008, term bonds due in annual installments (principal only) of $1,000,000 to $2,900,000 through October 1, 2015; interest ranges from 3.25% to 5.0%.	13,175,000
$4,230,000 Auxiliary Facilities System Revenue Bonds, Series 2008B, term bonds due in annual installments (principal only) of $95,000 to $1,340,000 through October 1, 2033; interest ranges from 2.0% to 5.85%.	4,040,000
Total bonds outstanding	$ 31,785,000

On July 1, 2005, the Series 2005 Bonds were issued in the principal amount of $19,345,000. Proceeds from the sale of the Series 2005 Bonds were used to advance refund all of the Series 1997 Bonds and portions of the outstanding Series 1998 and Series 2000 Bonds. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 Series Bonds as well as the portions of the Series 1998 and Series 2000 Bonds that were advance refunded. As a result, the 1997 Bonds and refunded portions of the 1998 and 2000 Bonds are considered defeased and the liability for those bonds has been removed from the University's Statement of Net Assets.

Although the advance refunding resulted in the recognition of an accounting loss of $1,164,045, the University in effect reduced its aggregate debt service payments by $951,513 over the next 21 years and also gained the University the release of the Series 1997 Debt Service Reserve Fund in the amount of $953,416.

During March of 2008, the Series 2008 Bonds were issued in the principal amount of $18,590,000. Proceeds from the sale of the Series 2008 Bonds were used to refund and redeem in April 2008, all of the outstanding Auxiliary Facilities System Revenue Bonds, Series 1998, that matured on and after October 1, 2008. The Series 1998 Bonds due on April 1, 2008 were paid from other available University funds. This portion of the Series 1998 Bonds are no longer outstanding and the liability for those bonds has been removed from the University's Statement of Net Assets.

Although the current refunding resulted in the recognition of an accounting loss of $124,024, the University in effect reduced its aggregate debt service payments by $920,974 over the next eight years.

All bonds outstanding are payable by the Board of Trustees solely from the net revenue of the Eastern Illinois University Auxiliary Facilities System (System) and from pledged tuition and fees, as well as from certain other funds pledged to pay the principal, redemption premiums, if any, and interest on the bonds.

As of June 30, 2011, $280,000 of previously refunded bonds were outstanding. Assets held in irrevocable trust accounts, along with interest, are anticipated to be sufficient to retire these bonds. As such, these bonds are defeased and accordingly have been accounted for as if they were retired. The balance of the related escrow fund was $280,276 as of June 30, 2011.

The estimated annual amounts required for the payment of principal and interest on the outstanding revenue bonds as of June 30, 2011, are set forth in the following table:

Year ending June 30	Principal	Interest	Total Payments
2012	$ 3,780,000	$ 1,450,334	$ 5,230,334
2013	3,975,000	1,259,946	5,234,946
2014	4,175,000	1,059,324	5,234,324
2015	4,385,000	848,518	5,233,518
2016	4,610,000	626,891	5,236,891
2017-2021	4,685,000	1,990,261	6,675,261
2022-2026	4,195,000	1,128,249	5,323,249
2027-2031	1,130,000	415,630	1,545,630
2032-2034	850,000	75,980	925,980
Total	$ 31,785,000	$ 8,855,133	$ 40,640,133

The following reserve accounts were established by the bond resolutions for the 2005, 2008 and 2008B Bond Series:

Retirement of Indebtedness -- These accounts include the Bond and Interest Sinking Accounts.

The bond indenture requires the University to set aside in the Bond and Interest Sinking Account on or before five banking days prior to April 1 and October 1, amounts sufficient to equal the next semi-annual payment (principal and interest). These amounts are to be provided after payment of current operating and maintenance costs.

Repair and Replacement Reserve Account -- Under the terms of the bond indenture, a transfer is made each fiscal year, if approved by the Board, to the Repair and Replacement Reserve Account. The maximum amount which may be accumulated in this account, including investments thereof, shall not exceed 5 percent of the replacement costs of the facilities constituting the System, plus either 10 percent of the historical costs of the parking lots or 100 percent of the estimated cost of resurfacing any one existing parking lot. This account will be used to pay the cost of unusual or extraordinary maintenance or repairs, renewals, replacements and renovating of the facilities or replacement of fixed equipment not paid as part of the ordinary maintenance and operations. Funds can be transferred from this account to the Bond and Interest Sinking Account if a deficiency occurs in that account which cannot be funded from the Debt Service Reserve Account.

Development Reserve Account -- Under the terms of the bond indenture, funds approved by the Board for expenditure for new space or construction of a facility are deposited in this account.

Equipment Reserve Account -- Under the terms of the bond indenture, funds approved by the Board for expenditure in connection with the acquisition of movable equipment to be installed in the facilities are deposited in this account. The maximum amount accumulated shall not exceed 20 percent of the cost of the movable equipment of the System.

Surplus Revenues -- After all mandatory transfers to the above accounts have been made, any excess funds may be used to: redeem or purchase bonds, advance refund bonds, credit funds to a utility reserve to provide for the payment of utilities (amount not to exceed 5 percent of the operating costs during such fiscal year), or to establish a self-insurance fund in connection with claims against or damage to the System.

The amounts required by the bond resolution for these purposes as of June 30, 2011 compared with the amounts included within the accounts as of June 30, 2011 are as follows:

	Minimum Amount Required By Bond Resolution	Cash and Investments Deposited in the Account
Repair and Replacement Reserve Account	$ -	$ 7,587,806

Pledged Revenues and Debt Service Requirements

The University has pledged specific revenues, net of specified operating expenses, to repay the principal and interest of revenue bonds. The following is a schedule of the pledged revenues and related debt:

Pledged Revenues					
Bond Issue	Purpose	Source of Revenue Pledged	Future Revenues Pledged[1]	Term of Commitment	Debt Service to Pledged Revenues
Auxiliary Facilities System (AFS)	Refundings, various improvements and additions to the System	Net AFS revenue, student tuition and fees	$ 40,640,133	2033	5.89%

[1] Total future principal and interest payments on bonds.

For the current year, principal and interest paid by the University and the total net revenues pledged were $5,233,439 and $88,858,388, respectively.

Notes payable consisted of the following as of June 30, 2011.

University demand note payable to First Mid-Illinois Bank and Trust, to finance equipment for the Union bowling center; payable on demand, but if no demand is made, payable in annual installments of $29,239 including interest at 5.44%; final payment due February, 2012; secured by Union bowling center equipment	$ 27,802
	$ 27,802

Maturity Information

The University has classified the note payable as a current liability because it is payable on demand and the University does not have agreements in place to extend the note in case the bank makes demand.

Year ending June 30	Principal	Interest	Total Payments
2011	$ 27,802	$ 1,509	$ 29,311

12. CERTIFICATES OF PARTICIPATION

The Certificates of Participation (COPS) consisted of the following as of June 30, 2011:

$10,775,000 Certificates of Participation, Series 2001; due in annual installments (principal only) of $650,000 beginning August 15, 2002, to $1,550,000 through August 15, 2011; interest ranges from 2.35% to 5.25%; certificates are subject to redemption, in whole, at the price of par (100%), plus accrued interest to the date fixed for redemption in the event of non-appropriation as defined in the Indenture.	$ 1,550,000
$8,640,000 Certificates of Participation, Series 2003; due in annual installments (principal only) of $695,000 beginning August 15, 2004, to $1,075,000 through August 15, 2013; interest ranges from 3% to 4%; certificates are subject to redemption, in whole, at the price of par (100%), plus accrued interest to the date fixed for redemption in the event of non-appropriation as defined in the Indenture.	3,060,000
$9,730,000 Certificates of Participation, Series 2005; due in annual installments (principal only) of $260,000 beginning February 15, 2008, to $1,020,000 through February 15, 2025, interest ranges from 3.0% to 4.3%; certificates are subject to redemption, in whole, at the price of par (100%), plus accrued interest to the date fixed for redemption in the event of non-appropriation as defined in the Indenture and are subject to mandatory redemption, in whole, at the price of the principal amount, plus accrued interest, on February 15, 2025 should the Board renew the Purchase Contract. The certificates are also callable at the option of the Board on any date on or after February 15, 2015 at the price of the principal amount, plus accrued interest.	8,635,000
$84,930,000 Certificates of Participation, Series 2009A; due in annual installments (principal only) of $960,000 beginning April 1, 2013, to $3,710,000 through April 1, 2036, interest ranges from 3.5% to 6.35%; certificates are subject to redemption, in part or whole, at the price of par (100%) plus accrued interest to the date fixed for redemption in the event of non-appropriation as defined in the Indenture. The certificates due April 1, 2020 and thereafter are also callable at the option of the Board on any date on or after April 1, 2019 at the price of the principal amount, plus accrued interest.	84,930,000
Total Certificates of Participation	$98,175,000

Per the COPS Series 2001, COPS Series 2003, the COPS Series 2005, and the COPS Series 2009A official statements, the Board is obligated to make installment payments either from funds derived from State appropriations or from legally available non-appropriated funds. Such legally available non-appropriated funds will include payments from the auxiliary facilities system using the savings derived from improvements within the system that are part of the energy services component of the issues. In addition, for the COPS Series 2003, such legally available funds include an increase of the student technology fee related to the network infrastructure upgrade and for the COPS Series 2005, such legally available funds include an increase in the campus improvement fee. The estimated annual amounts required for the payment of principal and interest on the outstanding Certificates of Participation as of June 30, 2011, are set forth in the following table:

Year Ending June 30	Principal	Interest	Total	Build America Subsidy
2012	$ 2,810,000	$ 5,524,004	$ 8,334,004	$ (1,761,392)
2013	2,285,000	5,433,881	7,718,881	(1,761,392)
2014	2,610,000	5,347,859	7,957,859	(1,749,631)
2015	2,155,000	5,267,774	7,422,774	(1,733,047)
2016	2,415,000	5,175,391	7,590,391	(1,704,865)
2017-2021	20,030,000	23,378,604	43,408,604	(7,741,185)
2022-2026	21,150,000	17,760,588	38,910,588	(6,070,586)
2027-2031	20,945,000	11,607,327	32,552,327	(4,062,565)
2032-2036	23,775,000	4,427,855	28,202,855	(1,549,749)
Total	$98,175,000	$83,923,283	$182,098,283	$(28,134,412)

13. LEASES PAYABLE

The University leases various equipment under capital lease purchase contracts. The equipment and related capital lease obligations are presented on the Statement of Net Assets at the net present value of the future minimum lease payments due under the capital leases as determined using applicable discount rates.

Following is a schedule by years of the total future minimum lease payments due under these equipment capital leases together with the net present value of the future minimum lease payments as of June 30, 2011:

Minimum lease payments year ending June 30, 2012	$ 9,675
Less amount representing interest	(406)
Net present value of future minimum lease payment	$ 9,269

The University also made rental payments under operating leases during 2011 of $27,224 primarily for office space used by various grant activities, storage for surplus equipment, and the University's textbook rental system.

14. RETIREMENT PLAN

Plan Description

Eastern Illinois University contributes to the State Universities' Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of the State universities, certain affiliated organizations, and certain other State educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing its website at www.SURS.org, or calling 1-800-275-7877.

Funding Policy

Plan members are required to contribute 8.0% of their annual covered salary (9% for University Police Officers) and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The rate for the years ended June 30, 2011, 2010, and 2009 were 21.27%, 18.61%, and 12.88%, respectively, of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the years ended June 30, 2011, 2010, and 2009 were $19,453,172, $18,020,036, and $11,511,485, respectively, equal to the required contributions for each year.

15. POST EMPLOYMENT BENEFITS

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays the University's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Avenue, Springfield, Illinois, 62763-3838.

16. SELF INSURANCE

The University is self insured for general liability through SURMA, the State Universities' Risk Management Association. SURMA is a cooperative agency voluntarily established by contracting Illinois State Universities, as defined by various sections of Chapter 110 of the *Illinois Compiled Statutes*. Its purpose is to prevent or lessen casualty losses to State University properties and injuries to persons or property which might result in claims being made against the State University and which would not be defended by the Illinois Attorney General and paid for by the State of Illinois and in most cases adjudicated through the Court of Claims. Each participating University's portion of the premium was determined based upon an actuarial evaluation. The University carries commercial excess general liability coverage with coverage up to $11 million with a $350,000 self-insured retention. Settled claims have not exceeded commercial general liability coverage in any of the three preceding years.

In addition, the University offers a self-insured health plan to its students and is the administrator of this plan. A student health insurance fee is assessed each semester to fund this plan. Students who enroll for nine or more hours are automatically covered and students who enroll for six to eight hours can request to be included under the plan. Dependents of an eligible student are not allowed to enroll in this plan. Students who are enrolled for nine or more hours may elect not to participate in the plan if they can provide proof of existing medical insurance that exceeds the benefits offered under the University's plan.

This plan is considered secondary or excess insurance if the student possesses any other medical insurance. This plan has a $50 deductible per diagnosis, per school year, and allows benefits up to 80%, subject to some limitations. The lifetime maximum benefits of the plan are $25,000 per diagnosis for medical services and $5,000 for mental illness and substance abuse. Total claims of $1,106,673 were paid for the year ended June 30, 2011.

The University has established a reserve for its self insurance costs to offset claims incurred but not submitted and the continuing rise of health care costs. This reserve is based on estimated ultimate cost of settling claims applying historical experience. Changes in the reserve balance for the year ended June 30, 2011 are as follows:

Reserve balance, June 30, 2010	$1,779,476
Transfers and fees	1,576,164
Payment of claims	(1,106,673)
Administrative cost	(260,117)
Reserve balance, June 30, 2011	$1,988,850

17. TRANSACTIONS WITH RELATED PARTIES

The University, being a State university, is a component unit of the State of Illinois (the State). The State provided the University $47,413,000 for general and educational purposes during fiscal year 2011.

The University also received assets from the Capital Development Board (CDB), an agency of the State of Illinois. CDB administered various capital improvements at the University. During fiscal year 2011, the University received $240,471 of capital improvements that were funded and paid for directly by CDB.

The Eastern Illinois University Foundation (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 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, 2011, the University provided cash, services and other resources to the Foundation, totaling $230,330, to help defray the Foundation's cost incurred under the contract. During the year ended June 30, 2011, the Foundation incurred expenses of $151,705 under the contract.

During the year ended June 30, 2011, the Foundation gave the University $1,466,003 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 $809,851 during the year. Also, the Foundation received $26,274 for the year ended June 30, 2011 in gifts from the University's restricted gift account with the donor's consent and $146,000 from a University grant account.

The Eastern Illinois University Alumni Association, Inc. (Association) has 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 agreed to pay the University for all facilities, services, and resources used. The payment was to be either in the form of money or its equivalent in services or resources. During the year ended June 30, 2011, the University provided the Association with $14,069 in services in accordance with the contract.

In fulfilling its fiscal year 2011 contract with the University, the Association incurred $143,087 of expenses and $25,156 of in-kind expenses. Included in the fiscal year 2011 expenses of $143,087 are unrestricted gifts, grants and scholarships of $23,574 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 $47,800 for the year ended June 30, 2011.

18. COMMITMENTS AND CONTINGENT LIABILITIES

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, the ultimate resolution of these matters will not have a material adverse effect upon the University's financial position.

The University participates in certain federal and State government agencies grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

19. NATURAL CLASSIFICATIONS OF EXPENSES

Operating expenses by natural classification for the year ended June 30, 2011 are as follows:

Salaries	$ 109,636,214
Benefits	56,281,930
Supplies	5,389,367
Contractual services	17,982,582
Utilities	6,345,896
Travel	1,355,496
Repairs and maintenance, equipment and buildings	2,639,723
Scholarships	10,555,901
Other	8,916,400
Depreciation	14,604,059
	$ 233,707,568

20. DISCLOSURES OF COMPONENT UNITS

As the cash, investments and liabilities of the Foundation are considered material to the University's financial statements taken as a whole, the following disclosures are made regarding these items.

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 State Treasurer. The Foundation also maintains deposits at those depository institutions authorized by the Foundation's Board of Directors. These deposits are fully covered by federal deposit insurance.

Investments

The Foundation is authorized by the Foundation's Board of Directors to invest funds in compliance with stated investment policies. 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 and alternative investments), 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, the Uniform Prudent Management of Institutional Funds Act (760 ILCS 51/4) permits the Foundation's 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 Foundation's Board of Directors is required to consider the Foundation's long-term and short-term needs, present and anticipated financial requirements, 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 for which the endowment was established.

The long-term objective of the endowment funds, as determined by the Foundation's 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 June 30th of each year. Any remaining return over the 5% spending rate will be retained for use in future years. As of June 30, 2011, net appreciation of $10,864,408 is available to be spent, but is restricted to specific purposes. Also, as of June 30, 2011, the fair market values of certain endowment investments were below their original cost by $505,954.

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, 2011 are disclosed as follows:

Effective Maturity	0-1 Year	1-5 Years	5-10 Years	10-15 Years	15-20 Years	Total
The Illinois Funds	$3,679,257	$ -	$ -	$ -	$ -	$3,679,257
Money Market Funds	1,130,238	-	-	-	-	1,130,238
Mutual Bond Funds	-	7,780,402	3,019,101	-	1,199,120	11,998,623

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. The Foundation has no specific guidelines addressing the credit rating of fixed income securities. The quality ratings for investments disclosed as of June 30, 2011 are as follows.

Quality Rating	AAA	Not Rated
The Illinois Funds	$3,679,257	$ -
Money Market Funds	111,388	1,018,850
Mutual Bond Funds	-	11,998,623
	$3,790,645	$13,017,473

The money market funds administered by Charles Schwab & Co., Inc. do not have a quality rating, but the fund's policy generally limits investments to the top two tiers. Mutual bond fund ratings represent investments in the portfolio, but the bond funds themselves are not rated.

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. One hundred percent of the Foundation's 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 of the Illinois Compiled Statutes (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, and mutual funds have not disclosed to the Foundation whether derivatives were used or held during the period covered by the financial statements.

Reconciliation to the Statement of Net Assets

A reconciliation of cash and investments as shown on the June 30, 2011 Statement of Net Assets is as follows:

	Current	Noncurrent	Total
Cash and cash equivalents	$ 438,839	$ -	$ 438,839
Restricted cash and cash equivalents	2,902,903	337,515	3,240,418
Restricted investments	2,872,973	21,727,404	24,600,377
Other current investments	32,000	-	32,000
Endowment investments	-	35,230,786	35,230,786
Total cash and investments	$ 6,246,715	$ 57,295,705	$ 63,542,420

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

The Illinois Funds money market accounts	$ 3,679,257
Money market accounts administered by First-Mid-Illinois Bank and Trust	111,388
Money market accounts administered by Charles Schwab & Co., Inc.	1,018,850
Investments administered by Charles Schwab & Co., Inc.	
Open Ended Mutual Bond funds	10,799,503
Open Ended Mutual Equity funds	31,092,244
Corporate Equity	88,482
Investments administered by Brandywine Global	
Open Ended Mutual Bond funds	1,199,120
Investments administered by Davis Funds	
Open Ended Mutual Equity funds	396,490
Private Equity - Alternative Investments	
Investments administered by Corbin Pinehurst	4,550,325
Investments administered by CITCO Fund Services	3,469,586
Investments administered by Park Street Capital	940,466
Investments administered by Goldman Sachs	536,403
Investments administered by Portfolio Advisors	283,938
Cooperative stock	1,774
Life insurance cash values	79,460
Real estate	5,295,134
Total cash and investments	$ 63,542,420

Long-term Liabilities

The Foundation incurred a demand mortgage note payable to a bank for the purchase of land and construction of a new foundation center, known as the Neal Welcome Center. The building, as well as two unitrust gifts, were pledged as collateral on this note. Accrued interest is payable on demand, but if no demand is made, then on the tenth day of each month. At June 30, 2011, the interest rate on this note was 5.25%. The principal is payable on demand, but if no demand is made, then on August 5, 2014.

The balance of the demand mortgage note payable was $1,387,238 as of June 30, 2011.

In addition, the Foundation had $6,281,523 due to others as of June 30, 2011. These liabilities arose as the Foundation acts as the trustee for certain trusts. Also, the Foundation has control of the assets under certain split interest agreements, which will eventually need to be paid to outside parties.

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
UNAUDITED DATA REQUIRED BY REVENUE BOND RESOLUTIONS
June 30, 2011

SCHEDULE OF INSURANCE

Insurance Coverage:

Property damage including buildings, contents, business interruption, and electronic data processing. Coverage is for fire, lightning, windstorms, hail, explosion, riot, civil commotion, vandalism and malicious mischief, and flood and earthquake.

	Coverage Amount	Deductible
Most buildings, contents, business interruption, electronic data processing and builder's risk	$ 500,000,000	$ 25,000
Boiler and machinery	100,000,000	25,000
Flood	50,000,000	25,000
Earthquake	100,000,000	25,000

Insurance company: Lexington Insurance Company

Policy period: July 1, 2010 to July 1, 2011

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
UNAUDITED DATA REQUIRED BY REVENUE BOND RESOLUTIONS
June 30, 2011

RATES	Double Occupancy	Single Occupancy
Residence halls		
Summer 2010	$ 1,328	$ 1,663
Fall 2010		
7 meals	3,808	4,608
10 meals	3,977	4,777
12 meals	4,127	4,927
15 meals	4,292	5,092
Spring 2011		
7 meals	3,808	4,608
10 meals	3,977	4,777
12 meals	4,127	4,927
15 meals	4,292	5,092
Summer 2011 (8 week session)	1,411	1,767

RATES	Efficiency	One Bedroom	Super Efficiency
Married student housing (monthly rent)			
Fall 2010	$ 438	$ 460	$ 409
Spring 2011	$ 438	$ 460	$ 409
Summer 2011	$ 438	$ 460	$ 409

University Court (semester)	Range		
Fall 2010	$ 2,231	to	$ 3,116
Spring 2011	2,231	to	3,116
Summer 2011 (8 week session)	928	to	1,042

Bond revenue fees	Fees
Summer 2010	$ 391.62
Fall 2010	399.47
Spring 2011	399.47
Summer 2011	399.47

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
UNAUDITED DATA REQUIRED BY REVENUE BOND RESOLUTIONS
June 30, 2011

ENROLLMENT DATA

Enrollment Date	Undergraduate Students	Graduate Students	Extension Students	Total
Summer 2010	1,796	898	1,385	4,079
Fall 2010	9,281	1,230	1,119	11,630
Spring 2011	8,397	1,152	1,101	10,650
Summer 2011	1,817	797	1,320	3,934

OCCUPANCY DATA

	Occupancy	Rate Occupancy	% of Occupancy
Residence halls			
Summer 2010	79	150	53%
Fall 2010	3,509	4,722	74%
Spring 2011	3,239	4,722	69%
Summer 2011	78	150	52%
Married student housing			
Summer 2010	46	130	35%
Fall 2010	128	130	98%
Spring 2011	128	130	98%
Summer 2011	73	130	56%
University Court			
Summer 2010	74	146	51%
Fall 2010	146	146	100%
Spring 2011	145	146	99%
Summer 2011	134	146	92%

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
State of Illinois - Eastern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the State of Illinois - Eastern Illinois University and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2011, which collectively comprise the State of Illinois - Eastern Illinois University's basic financial statements and have issued our report thereon dated January 31, 2012. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the University's discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the State of Illinois - Eastern Illinois University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Illinois - Eastern Illinois University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the State of Illinois - Eastern Illinois University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois - Eastern Illinois University's internal control over financial reporting.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in findings 11-1 and 11-2 in the accompanying schedule of findings, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois - Eastern Illinois University'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*.

The State of Illinois - Eastern Illinois University's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the State of Illinois - Eastern Illinois University's responses and, accordingly, we express no opinion on them.

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 Trustees, the State of Illinois – Eastern Illinois University management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

E.C. Ortiz & Co., LLP

January 31, 2012

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

11-1. **<u>Finding</u>** (Inaccurate Accounting for Participation in a Public Entity Risk Pool)

Eastern Illinois University (University) did not properly account for its participation in the State Universities Risk Management Association (SURMA) in accordance with accounting principles generally accepted in the United States of America (GAAP).

The University has been a member of SURMA since its inception on February 1, 1996. SURMA was created as a successor to the Board of Governors' Self-Insurance Liability Program. SURMA was initially funded by the surplus of the Board of Governors' Self-Insurance Liability Program upon its termination (treated as capital contributions of the original participants), as well as additional contributions which were assessed to the members. The SURMA members are Chicago State University, Eastern Illinois University, Governors State University, Northeastern Illinois University, and Western Illinois University. Each university has an employee appointed as a member to the SURMA Board, which meets on a quarterly basis.

While all past payments made by the University to SURMA have been recorded to prepaid insurance and amortized over the term of the current insurance policies, the capital contributions to SURMA have not been recorded as an asset on the books of the University. The University's share of the excess capital contributions to SURMA was $729,712 and $764,451 as of June 30, 2011 and June 30, 2010, respectively. SURMA's bylaws state that in the event of termination, if there are surplus funds available, such surplus shall be distributed to the then-existing members in the same proportion that each existing member's contributions over the immediately previous five years were in proportion to the contributions of all members. Similar provisions also apply to members who elect to withdraw (if approved by the remaining participants) prior to the termination of SURMA. An adjusting entry was proposed to the University to correct this error, which the University recorded.

Further, we noted the University did not adequately monitor SURMA to ensure SURMA underwent an annual audit in fiscal year 2010 to provide assurance as to the accuracy of financial information required to be reported by the University.

Governmental Accounting Standards Board (GASB) Interpretation No. 4 - *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools* was issued in February 1996 with an effective date of periods beginning after June 15, 1996. It states, "A capitalization contribution to a public entity risk pool with transfer or pooling of risk should be reported as a deposit if it is probable that the contribution will be returned to the entity upon either the dissolution of or approved withdrawal from the pool. An entity's determination that a return of the contribution is probable should be based on the provisions of the pooling agreement and an evaluation of the pool's financial capacity to return the contribution."

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system of fiscal and administrative controls to ensure resources are properly recorded and accounted for to permit the preparation of accounts, reliable financial and statistical reports, and to maintain accountability over the State's resources.

University officials stated the SURMA By-Laws were adopted cooperatively by the five universities formerly under the Board of Governors. The member universities have been operating under those By-Laws since 1996, prior to the issuance of GASB Interpretation No. 4. The condition found is the result of the member institutions' interpretation that the return of the funds is not probable and hence the failure to record the related accounting entries, as pointed out in the audit finding.

Failure to adequately monitor SURMA's activities and properly account for the University's participation in SURMA resulted in an understatement of assets on the University's financial statements. (Finding Code No. 11-1)

Recommendation

We recommend the University implement controls to monitor the activities of SURMA and properly account for its participation in SURMA in accordance with GAAP.

University Response

SURMA By-Laws state that with a four/fifths vote of the Board of Directors the entity may be terminated. However, "all members remain fully obligated for the payment of supplementary and other payments attributable to the years during which they were members of the Agency. After the payment of all claims, reserves, administrative costs and expenses, if there are still surplus funds available, such surplus funds shall be distributed to the then-existing members…" Although it is possible that SURMA could be terminated and the funds returned to each member, the likelihood of that happening in our opinion is remote. We look at the pool as being able to mitigate our exposure to losses and therefore we would be unlikely to approve the withdrawal of a member or termination of the pool-particularly if that meant reducing the pool of assets available for the payment of losses.

GASB Interpretation #4 states that "an entity's determination that a return of the contribution is probable should be based on the provisions of the pooling agreement and an evaluation of the pool's financial capacity to return the contribution." We interpret this to mean that the determination is not made simply based upon whether the agreement allows a member to withdraw or terminate but whether the conditions for the withdrawal/termination could reasonably occur. We agree that the return of the contribution is probable based solely upon the financial capacity of the entity. However, the provisions of the agreement do not provide a situation that is probable when you consider the necessity for a four/fifths vote and that contributions would be returned thereby reducing the assets available for the other members to pay their losses. We certainly would not vote for a withdrawal/termination when it would affect our ability to pay losses.

SURMA had an audit completed of their 2010 fiscal year financial statements, however, its completion was not timely. The report was dated December 19, 2011.

Auditor's Comment

As of June 30, 2011, SURMA has the financial capability to return excess capital to the participating universities and the SURMA By-Laws provide a mechanism for returning excess funds to the participating universities following a withdrawal or dissolution. As the accounting standard in question limits the University's consideration of the probability of a return of the excess capital contributions to "the provisions of the pooling agreement and an evaluation of the pool's financial capacity to return the contribution," the University – in our opinion – should and did record the excess capital contribution in their financial statements.

11-2. **Finding** (Inaccurate Capital Asset Accounting and Depreciation Calculations)

Eastern Illinois University (University) did not properly calculate current depreciation and improperly classified completed projects in the financial statements.

During our audit, we noted the following:

- The University classified 56 asset items as building improvements, which were depreciated using the 50-year estimated useful life of a building instead of the 20-year estimated useful life for building improvements. As a result, current year depreciation expense was understated by $484,489. The auditors proposed an adjusting entry to the University to correct this error, which the University recorded.

- The University accounted for a substantially completed residence hall window retrofitting project, totaling $923,737, as construction in progress instead of a building improvement. The auditors proposed an adjusting entry to reclassify the project, which the University recorded. There was no material effect on the University's depreciation expense as a result of the misclassification.

The University's depreciation policy states depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 20 years for site and building improvements.

Generally Accepted Accounting Principles (GAAP) and the Statewide Accounting Management System (SAMS), Procedure 03.30.10, requires the University transfer construction costs from construction in progress to an appropriate fixed asset account upon the substantial completion of the project, or when the asset is ready for its intended purpose. Further, the University must allocate depreciation expense for capital assets using a systematic and rational method to the periods benefiting from its use.

According to University personnel, the use of 50-year life for building improvements was due to difference in judgment and the misclassification of substantially completed project was due to oversight. Most of these costs were incurred in relation to the University's energy conservation project for the entire University. With the construction of the University energy steam plant, several costs were incurred and these costs were inadvertently depreciated over 50 years, which is the estimated useful life of the steam plant structure.

Failure to adequately monitor and review capital asset activity resulted in misstatements to the University's financial statements. (Finding Code Nos. 11-2, 10-1)

Recommendation

We recommend the University enhance internal controls over reporting and depreciating capital assets to ensure the proper accounting for asset classifications and depreciation in accordance with both Generally Accepted Accounting Principles and the Statewide Accounting Management System.

University Response

We agree with the auditor's recommendation. We will implement controls to improve reporting and depreciation accounting for capital assets.

STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY
SCHEDULE OF FINDINGS
June 30, 2011

PRIOR FINDINGS NOT REPEATED

There were no prior findings not repeated during the audit period.