

**STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT
For the Year Ended June 30, 2006**

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

EASTERN ILLINOIS UNIVERSITY

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EASTERN ILLINOIS UNIVERSITY

UNIVERSITY OFFICIALS

President	Mr. Louis V. Hencken
Provost and Vice President for Academic Affairs	Dr. Blair M. Lord
Vice President for Business Affairs	Mr. Jeffrey L. Cooley, CPA
Vice President for Student Affairs – 8/1/05 to present	Mr. Daniel P. Nadler
Interim Vice President for Student Affairs – 1/1/05 to 7/31/05	Ms. Lynette Drake
Vice President for External Relations	Dr. Jill F. Nilsen
Director of Business Services and Treasurer	Mr. Paul A. McCann, CPA
Director of Accounting & Finance And Assistant Director of Business Services	Mr. Larry G. Cannon
General Counsel	Mr. Joseph T. Barron
Director of Internal Auditing	Ms. Kathleen Moreno, CGFM

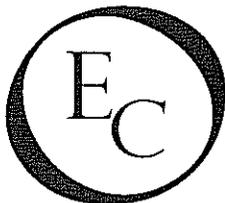
University offices are located at:

600 Lincoln Avenue
Charleston, Illinois 61920

**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.



Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Eastern Illinois University (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, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative financial information has been derived from the University's June 30, 2005 financial statements audited by another auditor whose report dated November 4, 2005, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Eastern Illinois University and of its aggregate discretely presented component units as of June 30, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, a report dated November 10, 2006 on our consideration of the 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 will be issued under separate cover. 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, upon issuance, 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 an opinion on the financial statements that collectively comprise Eastern Illinois University's basic financial statements. The accompanying supplementary information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, as listed in the Table of Contents, has not been subjected to the auditing procedures applied 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 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 1998, 2000, and 2005).

E. C. Gatz & Co. CPA
November 10, 2006

EASTERN ILLINOIS UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2006 with comparative information for the year ended June 30, 2005. 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 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 discrete 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 11,000 students and employs approximately 1,800 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 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 extension 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.

EASTERN ILLINOIS UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

As prescribed by GASB Statement No. 35, this annual report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The 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 nonoperating. Under the current reporting model, a significant portion of the University's revenue is considered nonoperating. State and capital appropriations (2006 - \$47,990,708 and 2005 - \$47,945,243) and payments on behalf of the University (2006 - \$24,902,749 and 2005 - \$25,551,432) are reported as nonoperating revenues and results in the University showing an operating loss of \$66,902,152 for the year ended June 30, 2006 and \$70,100,211 for the year ended June 30, 2005.

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 fiscal year ended June 30, 2006, the University issued \$19.3 million of Revenue Bonds, to advance refund all of the Auxiliary System Revenue Bonds, Series 1997, and portions of the outstanding Auxiliary Facilities System Revenue Bonds, Series 1998 and Series 2000.

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

During the year ended June 30, 2006, the University's net assets increased by approximately \$31.3 million to \$130.0 million. This increase is primarily due to an increase in income, along with an increase in Capital Development Board provided capital projects in fiscal year 2006.

Statement of Net Assets

Condensed Statement of Net Assets, as of June 30,

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$ 45,588,297	\$ 41,199,063
Noncurrent assets		
Capital assets, net	178,184,836	153,154,084
Other	6,831,009	12,593,410
Total noncurrent assets	<u>185,015,845</u>	<u>165,747,494</u>
Total assets	<u>\$ 230,604,142</u>	<u>\$ 206,946,557</u>
Liabilities		
Current liabilities	18,847,820	22,714,573
Noncurrent liabilities	81,748,366	85,551,273
Total liabilities	<u>100,596,186</u>	<u>108,265,846</u>
Net Assets		
Invested in capital assets, net	119,767,950	91,254,190
Restricted		
Nonexpendable	497,281	457,130
Expendable	12,249,187	12,107,125
Unrestricted	<u>(2,506,462)</u>	<u>(5,137,734)</u>
Total net assets	<u>130,007,956</u>	<u>98,680,711</u>
Total liabilities and net assets	<u>\$ 230,604,142</u>	<u>\$ 206,946,557</u>

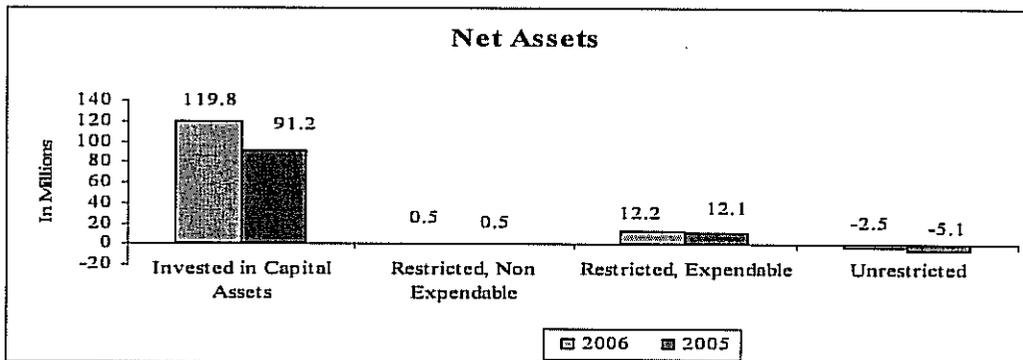
University assets totaled nearly \$230.6 million as of June 30, 2006. The largest asset of the University is its investment in land, buildings and equipment which totaled approximately \$178.2. In fiscal year 2006, cash and investments decreased by approximately \$1.8 million to approximately \$35.0 million.

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

University liabilities totaled approximately \$100.6 million as of June 30, 2006. Long-term debt of approximately \$66.8 million as of June 30, 2006, which consisted of notes, leases and bonds payable and Certificates of Participation, is the largest portion of the liability.

The University's current assets of approximately \$45.6 million were sufficient to cover the current liabilities of approximately \$18.8 million. The current ratio of current assets to current liabilities is 2.42 in current assets for every \$1 in current liabilities for fiscal year 2006.

The following graph shows net assets by classification and restriction:



Capital Assets and Related Financing Activities

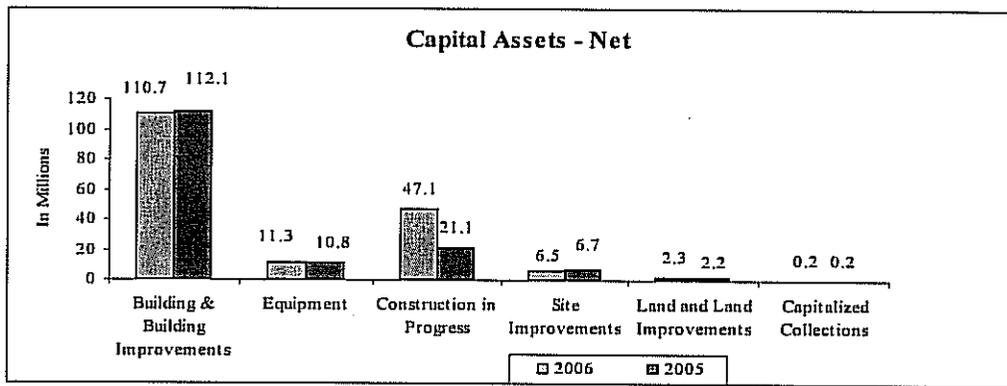
The Eastern Illinois University facilities include 72 buildings totaling about 3 million gross square feet. Funding from State, private, borrowed, and internal sources are used to accomplish the capital objectives of the University.

The University continues to expand and renovate its campus facilities. University capital additions totaled approximately \$39.5 million for fiscal year 2006. The additions included ongoing renovations to the Doudna Fine Arts building, as well as Blair Hall reconstruction efforts. The expected cost for the remodeling project for the Doudna Fine Arts Center funded by the Capital Development Board, is approximately \$54 million which includes about \$7.1 million in furnishings.

The University had approximately \$42.9 million of bonded debt outstanding and \$24.5 million of COPS outstanding as of June 30, 2006. On July 1, 2005 the University issued the Auxiliary Facilities System Revenue Bonds, Series 2005 in the amount of \$19,345,000. Proceeds from the sale of these bonds were used to advance refund all of the Series 1997 and portions of both the Series 1998 and Series 2000 bonds outstanding. 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.

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

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

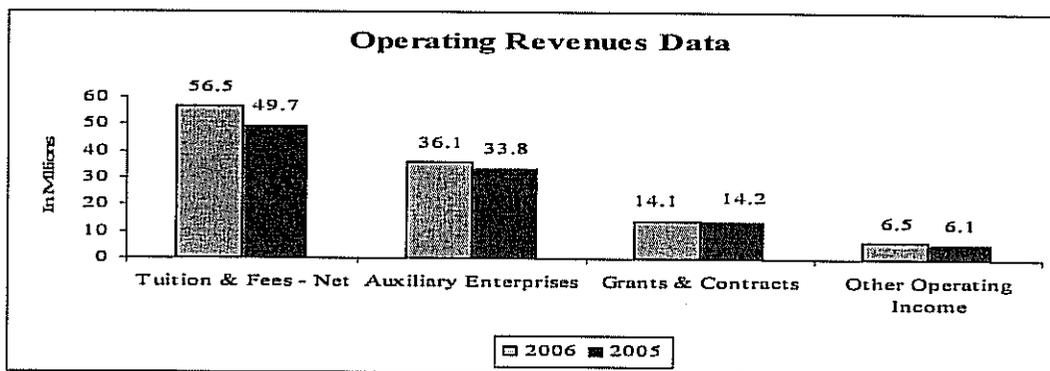
Condensed Statement of Revenues, Expenses and Changes in Net Assets
For the years ended June 30,

	2006	2005
Operating revenues		
Tuition and fees, net	\$ 56,480,594	\$ 49,726,069
Grants and contracts	14,137,808	14,179,194
Auxiliary enterprises	36,096,832	33,777,288
Other operating revenues	6,466,407	6,052,838
Total operating revenues	113,181,641	103,735,389
Operating expenses	180,083,793	173,835,600
Operating loss	(66,902,152)	(70,100,211)
Nonoperating revenues (net of expenses)		
State appropriations	47,609,499	47,609,309
Payments on behalf of the University	24,902,749	25,551,432
Other nonoperating revenues - net	4,041,387	1,927,184
Net nonoperating revenues	76,553,635	75,087,925
Income before capital contributions	9,651,483	4,987,714
Capital appropriations	381,209	335,934
Assets donated by other State agencies	21,240,680	3,391,529
Capital grants and gifts	53,873	1,304,598
Total increase in net assets	31,327,245	10,019,775
Net assets, beginning of year	98,680,711	88,660,936
Net assets, end of year	\$ 130,007,956	\$ 98,680,711

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

Operating Revenues

Operating revenues for fiscal year 2006 totaled \$113.2 million. The most significant source of operating revenues were tuition and fees, grants and contracts, and auxiliary services as shown in the graph below:



State appropriations to the University did not increase in fiscal year 2006. 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 12% for new students and 7.5% for continuing students in fiscal year 2006. The University also implemented a student fee increase of 3.6% in fiscal year 2006. This, coupled with an enrollment increase of 5% in fiscal year 2006, accounted for the increase in tuition, fees and housing revenues.

Tuition and Fees

The University's tuition and fees has consistently been one of the lowest out of the twelve 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 2006 and 2005.

	2006	2005
Full-time Undergraduates		
In-State		
Continuing		
Guaranteed	\$137.25/hour + \$831.05 fees/semester	-
Non-guaranteed	\$137.25/hour + \$831.05 fees/semester	\$127.65/hour + \$800.45 fees/semester
New students	\$154.30/hour + \$831.05 fees/semester	\$137.75/hour + \$800.45 fees/semester

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

	2006	2005
Out of State		
Continuing		
Guaranteed	\$413.25/hour + \$831.05 fees/semester	-
Non-guaranteed	\$411.75/hour + \$831.05 fees/semester	\$382.95/hour + \$800.45 fees/semester
New students	\$462.90/hour + \$831.05 fees/semester	\$413.25/hour + \$800.45 fees/semester
Full-time graduates		
In State	\$150.55/hour + \$833.05 fees/semester	\$134.40/hour + \$802.45 fees/semester
Out of State	\$451.65/hour + \$833.05 fees/semester	\$403.20/hour + \$802.45 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 2005, the residence halls were about 84% occupied; the University Apartments were about 100% occupied; and, University Court was 100% occupied.

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

	2006	2005
University Apartments		
Efficiency	\$377/month	\$367/month
One bedroom	\$397/month	\$385/month
Super efficiency	\$353/month	\$343/month
University Court	Rates vary from \$2,093 to \$2,824/semester	Rates vary from \$2,146 to \$2,743/semester
Residence Halls		
5 plus meal plan	\$2,749/semester	\$2,551/semester
10 plus meal plan	\$2,874/semester	\$2,664/semester
12 plus meal plan	\$2,979/semester	\$2,764/semester
15 plus meal plan	\$3,098/semester	\$2,875/semester

EASTERN ILLINOIS UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Plus Meal Option permits each student the flexibility to make purchases at various campus locations, including the following:

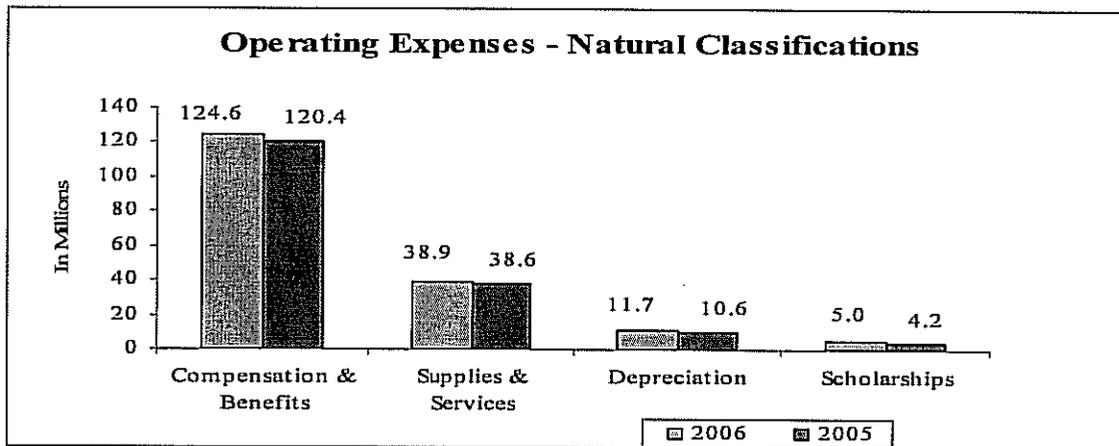
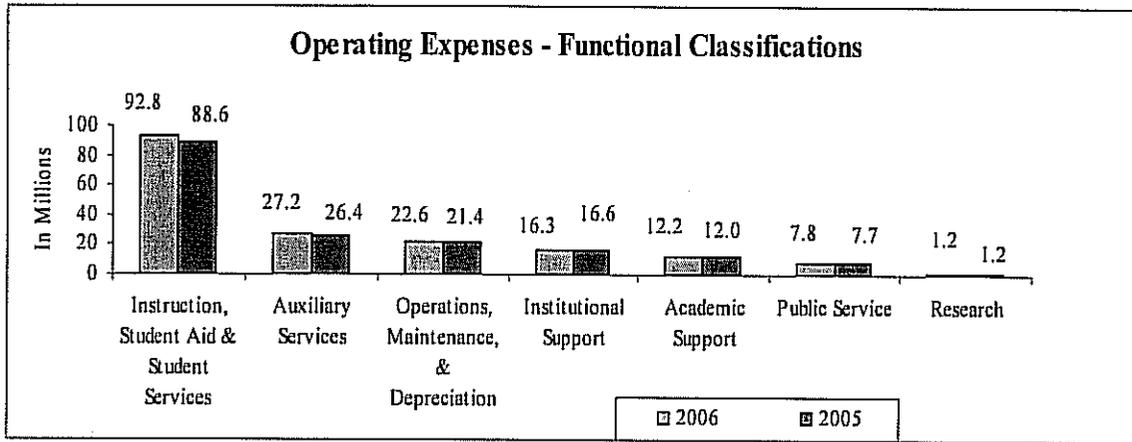
- Any residence hall dining center
- Purchases at the food court within the University Union
- Purchases at campus convenience centers

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 2006, including depreciation of \$11.7 million, totaled \$180.1 million. Under the functional classifications, \$92.8 million or 52% was used for instruction, student aid, and student services; \$27.2 million, or 15% was used for auxiliary services; \$16.3 million, or 9% was used for institutional support, which includes such areas as computer services and University police; and \$12.2 million, or 7% was used for academic support, for such areas as the library and various dean' offices. Under the natural classifications, \$124.6 million, or 69% was used for compensation and benefits; \$38.9 million, or 22% was used for supplies, contractual services, travel, utilities and other; \$5.0 million, or 3% was used for scholarships; and \$11.7 million, or 6% was depreciation.

The operating expenses for fiscal year 2005, including depreciation of \$10.6 million, totaled \$173.8 million. Under the functional classifications, \$88.6 million or 51% was used for instruction, student aid, and student services; \$26.4 million, or 15% was used for auxiliary services; \$16.6 million, or 10% was used for institutional support, which includes such areas as computer services and University police; and \$12.0 million, or 7% was used for academic support, for such areas as the library and various dean' offices. Under the natural classifications, \$120.4 million, or 69% was used for compensation and benefits; \$38.6 million, or 22% was used for supplies, contractual services, travel, utilities and other; \$4.2 million, or 2% was used for scholarships; and \$10.6 million, or 6% was depreciation.

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



Other

For fiscal year 2006, the State appropriation was the largest source of nonoperating revenues at \$47.6 million.

Interest expense on outstanding debt was \$3.0 million for fiscal year 2006 and is the largest category of nonoperating expenses.

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

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,

	<u>2006</u>	<u>2005</u>
Cash provided by (used in):		
Operating activities	\$ (36,045,016)	\$ (33,075,694)
Noncapital financing activities	50,568,243	49,447,691
Capital and related financing activities	(18,212,159)	(14,565,829)
Investing activities	<u>4,801,939</u>	<u>(2,046,647)</u>
Net increase (decrease) in cash and cash equivalents	1,113,007	(240,479)
Cash and cash equivalents, beginning of year	<u>26,578,833</u>	<u>26,819,312</u>
Cash and cash equivalents, end of year	<u>\$ 27,691,840</u>	<u>\$ 26,578,833</u>

Major sources of funds included in operating activities are student tuition and fees, and auxiliary services. Student tuition and fees provided \$56.5 million. Auxiliary enterprises income provided \$36.1 million. The major source of funds included in noncapital financing activities is state appropriations which provided \$48.1 million in fiscal year 2006.

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 net cash provided by investing activities of \$4.8 million in fiscal year 2006 is due mainly to the redemption of investments from COPS issues which were used to finance capital purchases.

The University's Economic Outlook

The State of Illinois (State) General Fund appropriation represents a significant, but decreasing, portion of operating support for University programs. State General Fund appropriations represented approximately 31% of the University's operating budget in 2005 and 30% in 2006. After several years of flat appropriations, the General Assembly has increased the State General Fund appropriation for the University in fiscal year 2007 by \$673,300 or approximately 1.4%. Although the University's operating budget continues to grow, we project that the State's share of funding will continue to decline.

EASTERN ILLINOIS UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The University will strive to manage tuition levels to meet its mission of superior yet accessible education.

In 2003, Public Act 93-0228 was enacted that 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 4 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 2006, the University increased tuition for incoming students by 12.5%. A similar increase is projected for the Fall of 2007.

It is the plan of the University to maintain a stable enrollment. In 2006, the University had a Fall enrollment of 12,129. The 2007 Fall enrollment increased by 1.8% to 12,349. The University does not anticipate any change to the plan in the foreseeable future. Likewise, it is the University's plan to maintain stable occupancy in University owned housing. In 2006, the University had 4,232 students in University owned housing. In 2007, students living in University owned housing increased by 1.7% to 4,303.

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. University housing is currently in the midst of a 10 year, \$70 million plan to improve the facilities and the quality of life on campus. The plan is being funded totally through housing fees. For the Fall semester of 2005, the typical room and board rate for a full time student was \$3,098. For the Fall semester of 2006, the typical room and board rate increased by 7.5% to \$3,330. A similar increase is projected for the Fall of 2007.

On November 8, 2006, the Board of Trustees approved a four year contract with the University Professionals of Illinois (UPI) Local 4100 (the Union representing University Faculty members) that was retroactive to September 1, 2006. The contract provides bargaining unit members with annual across the board salary increases that average approximately 3.2% over the term of the agreement and other benefits. UPI represents almost 600 faculty members on campus and is the single largest union representing employees on campus. In addition, on September 15, 2006, the Board of Trustees approved a three year agreement with the American Federation of State, County and Municipal Employees (AFSCME) Local 981 (the Union representing University clerical employees) that was retroactive to July 1, 2006. The contract provides bargaining unit members with annual across the board salary increases of 3% over the term of the

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

agreement and other benefits. The AFSCME clerical unit represents about 150 employees on campus.

The University is currently involved in a joint project with the Illinois Capital Development Board to construct a new Fine Arts Center on campus. The Doudna Fine Arts Center will open in the Spring of 2008. The \$60 million plus project has already generated a tremendous amount of excitement within the academic and cultural communities. In addition, the Capital Development Board is currently investing another \$4 million upgrading the campus' electrical distribution system.

Private gifts are an important source of funding for University operations. With the help of The Eastern Illinois University Foundation, a very successful three year \$11.1 million development campaign was completed in 2006. With public financing representing a smaller portion of the University's budget, private philanthropy will grow in importance. The University will continue to grow its development operations and has established a goal of \$5 million for 2007.

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

	<u>University</u>		<u>Component Units</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 11,497,859	\$ 10,790,208	\$ 548,889	\$ 496,433
Restricted cash and cash equivalents	16,193,981	15,788,625	2,084,881	1,411,068
Short-term investments	3,277,716	1,096,724	466,683	360,610
Restricted short-term investments	2,514,726	1,839,047	1,830,455	1,725,155
Accounts receivable, net of allowance for doubtful accounts	9,066,517	7,762,408	238,987	97,937
State appropriation receivable	-	471,736	-	-
Interest receivable	66,673	89,483	12,835	11,160
Inventories	1,540,233	1,630,272	-	9,600
Notes receivable, current portion, net of allowance for doubtful accounts	862,708	861,786	-	-
Other assets	567,884	868,774	1,516	148,768
Total current assets	45,588,297	41,199,063	5,184,246	4,260,731
Noncurrent assets:				
Restricted cash and cash equivalents	-	-	-	17,143
Notes receivable, less current portion, net of allowance for doubtful accounts	5,007,888	4,980,349	-	-
Endowment investments	497,281	457,144	20,021,592	18,445,205
Restricted investments	972,690	4,223,859	21,486,321	20,841,601
Other long-term investments	-	2,520,935	741,573	781,930
Other long-term assets	353,150	411,123	410,856	533,943
Capital assets, net of accumulated depreciation	178,184,836	153,154,084	2,238,686	2,273,328
Total noncurrent assets	185,015,845	165,747,494	44,899,028	42,893,150
TOTAL ASSETS	\$ 230,604,142	\$ 206,946,557	\$ 50,083,274	\$ 47,153,881
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 8,798,361	\$ 12,125,908	\$ 13,618	\$ 13,557
Deferred revenues	3,175,101	2,499,402	-	-
Long-term liabilities, current portion	6,874,358	8,089,263	322,850	382,517
Demand mortgage payable	-	-	1,512,238	1,512,238
Total current liabilities	18,847,820	22,714,573	1,848,706	1,908,312
Noncurrent liabilities:				
Long-term liabilities, less current portion	76,220,006	80,188,844	1,998,698	2,310,588
Due to others	-	-	5,421,365	5,193,509
Federal loan program contributions refundable	5,528,360	5,362,429	-	-
Total noncurrent liabilities	81,748,366	85,551,273	7,420,063	7,504,097
Total liabilities	100,596,186	108,265,846	9,268,769	9,412,409
Net assets:				
Invested in capital assets, net of related debt	119,767,950	91,254,190	726,448	761,090
Restricted:				
Nonexpendable				
Scholarships and fellowships	497,281	457,130	-	-
Endowments	-	-	20,021,592	18,462,348
Expendable				
Scholarships and fellowships	44,759	41,655	-	-
Instructional department uses	3,414,162	2,893,071	-	-
Loans	1,273,532	1,362,259	-	-
Capital projects	6,623,543	5,108,442	-	-
Debt service	893,191	2,701,698	-	-
Other	-	-	17,869,384	16,284,821
Unrestricted	(2,506,462)	(5,137,734)	2,197,081	2,233,213
Total net assets	130,007,956	98,680,711	40,814,505	37,741,472
TOTAL LIABILITIES AND NET ASSETS	\$ 230,604,142	\$ 206,946,557	\$ 50,083,274	\$ 47,153,881

See accompanying notes to financial statements.

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

	University		Component Units	
	2006	2005	2006	2005
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$6,277,374 in fiscal year 2006 and \$5,894,187 in fiscal year 2005)	\$56,480,594	\$ 49,726,069	\$ -	\$ -
Federal grants and contracts	8,737,303	8,340,373	-	-
State grants and contracts	4,035,120	3,781,050	-	-
Local grants and contracts	223,812	130,090	-	-
Private grants and contracts	1,141,573	1,927,681	-	-
Sales and services of educational departments	3,972,693	3,691,383	-	-
Auxiliary enterprises (net of scholarship allowances of \$1,304,169 in fiscal year 2006 and \$1,362,392 in fiscal year 2005)	36,096,832	33,777,288	-	-
Gifts	-	-	1,166,128	905,231
Service contract with the University	-	-	215,054	209,308
Budget allocation from the University	-	-	55,131	59,672
Membership dues	-	-	41,715	46,015
Merchandise sales	-	-	677	-
Royalties	-	-	13,623	650,440
Alumni promotions	-	-	380	1,020
Other operating revenues	2,493,714	2,361,455	135,756	126,319
Total operating revenues	113,181,641	103,735,389	1,628,464	1,998,005
OPERATING EXPENSES				
Educational and general				
Instruction	70,108,070	67,892,563	-	-
Research	1,171,032	1,152,343	-	-
Public service	7,758,929	7,724,273	-	-
Academic support	12,254,338	11,993,150	-	-
Student services	17,606,275	16,287,373	-	-
Institutional support	16,319,773	16,648,005	736,548	720,434
Operations and maintenance of plant	10,895,526	10,845,988	-	-
Student aid	5,128,002	4,384,504	-	-
Auxiliary enterprises	27,178,279	26,356,774	-	-
Depreciation expense	11,663,569	10,550,627	34,642	34,463
Total operating expenses	180,083,793	173,835,600	771,190	754,897
Operating income (loss)	(66,902,152)	(70,100,211)	857,274	1,243,108

See accompanying notes to financial statements.

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

	<u>University</u>		<u>Component Units</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	47,609,499	47,609,309	-	-
Payments on behalf of the University	24,902,749	25,551,432	-	-
Gifts	2,356,684	2,437,745	-	-
Investment income (net)	1,888,134	917,046	1,257,314	1,073,078
Net increase in fair value of investments	15,700	57,522	1,249,177	1,702,872
Scholarships	-	-	(619,524)	(528,678)
Distributions to annuity/unitrust beneficiaries	-	-	(229,051)	(251,486)
Actuarial adjustments	-	-	267,150	(28,651)
Interest on capital asset-related debt	(2,964,097)	(2,756,638)	(98,565)	(83,363)
Nonoperating grants and contracts	(23,691)	85,440	-	-
Amortization of bond costs	(123,029)	(38,764)	-	-
Grants to the University	-	-	(923,033)	(1,113,233)
Payments to the Foundation	(16,339)	(11,594)	-	-
Loss on disposal of capital assets	(103,609)	(1,245,197)	-	-
Blair Hall fire insurance recoveries	3,000,000	2,500,000	-	-
Other nonoperating revenues (expenses)	11,634	(18,376)	(2,387)	(4,539)
Total nonoperating revenues	76,553,635	75,087,925	901,081	766,000
Income before capital contributions	9,651,483	4,987,714	1,758,355	2,009,108
Capital appropriations	381,209	335,934	-	-
Capital grants and gifts	53,873	1,304,598	-	-
Assets donated by other State agencies	21,240,680	3,391,529	-	-
Additions to permanent endowments	-	-	1,314,678	2,495,495
Increase in net assets	31,327,245	10,019,775	3,073,033	4,504,603
NET ASSETS				
Net assets, beginning of year	98,680,711	88,660,936	37,741,472	33,236,869
Net assets, end of year	\$ 130,007,956	\$ 98,680,711	\$ 40,814,505	\$ 37,741,472

See accompanying notes to financial statements.

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

	University		Component Units	
	2006	2005	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 56,183,016	\$ 49,397,281	\$ -	\$ -
Grants and contracts (non-capital)	13,692,167	13,531,428	-	-
Sales and services of educational departments	3,559,119	2,945,656	-	-
Auxiliary enterprise	36,123,812	33,371,103	-	-
Payments to suppliers	(43,640,525)	(35,837,425)	(519,552)	(531,823)
Payments to employees	(92,836,912)	(88,656,866)	-	-
Payments for employee benefits	(6,706,823)	(6,362,820)	-	-
Payments for scholarships & fellowships	(4,979,286)	(4,236,212)	-	-
Federal loan program contributions refundable	165,931	77,576	-	-
Loans issued to students	(1,192,169)	(1,250,277)	-	-
Collection of loans from students	1,163,708	1,151,890	-	-
Royalties	-	-	123,985	203,758
Membership dues	-	-	43,861	43,646
Service contract with the University	-	-	78,625	148,250
Gifts	-	-	1,089,866	881,960
Promotional revenues	-	-	380	1,020
Other receipts	2,422,946	2,792,972	136,433	126,319
Net cash provided from (used in) operating activities	<u>(36,045,016)</u>	<u>(33,075,694)</u>	<u>953,598</u>	<u>873,130</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	\$ 48,081,235	\$ 47,137,607	\$ -	\$ -
Private gifts other than capital purposes	2,348,738	2,431,785	1,256,852	2,396,525
Payments to the Foundation	(16,339)	(11,594)	-	-
Nonexchange grants	142,975	(91,731)	-	-
Grants to organizations	-	-	(12,270)	(4,906)
Scholarships	-	-	(621,416)	(527,936)
Distributions to annuity/unitrust beneficiaries	-	-	(372,020)	(324,658)
Agency receipts	-	-	118,115	138,024
Agency payments	-	-	(215,580)	(176,014)
Other non-operating activities	11,634	(18,376)	-	-
Grants to the University	-	-	(923,033)	(1,113,233)
Net cash provided by (used in) noncapital financing activities	<u>50,568,243</u>	<u>49,447,691</u>	<u>(769,352)</u>	<u>387,802</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from bond issue/notes payable	19,684,646	9,869,672	-	-
Principal paid on capital debt and leases	(5,524,512)	(5,097,846)	-	-
Principal paid through advance refunding	(19,507,132)	-	-	-
Interest paid on capital debt and leases	(2,392,747)	(3,112,370)	(90,217)	(90,355)
Insurance proceeds from fire damage	3,000,000	2,500,000	-	-
Capital appropriations	381,209	335,934	-	-
Capital grants and gifts	565,346	941,093	-	-
Bond issue costs paid	(83,990)	(46,000)	-	-
Proceeds of mortgage loan	-	-	-	17,883
Purchases of capital assets	(14,334,979)	(19,956,312)	-	(17,883)
Net cash used in capital and related financing activities	<u>(18,212,159)</u>	<u>(14,565,829)</u>	<u>(90,217)</u>	<u>(90,355)</u>

See accompanying notes to financial statements.

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

	University		Component Units	
	2006	2005	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the sale and maturities of investments	43,746,896	55,809,920	3,765,890	409,324
Interest received on investments	1,911,326	850,413	1,318,652	1,151,681
Sale of gift stock and real estate	-	-	140,784	123,080
Purchase of investments	(40,856,283)	(58,706,980)	(4,610,229)	(3,093,656)
Net cash provided by (used in) investing activities	4,801,939	(2,046,647)	615,097	(1,409,571)
Net increase (decrease) in cash	1,113,007	(240,479)	709,126	(238,994)
Cash and cash equivalents, beginning of year	26,578,833	26,819,312	1,924,644	2,163,638
Cash and cash equivalents, end of year	<u>\$ 27,691,840</u>	<u>\$ 26,578,833</u>	<u>\$ 2,633,770</u>	<u>\$ 1,924,644</u>
Reconciliation of net operating income to net cash provided from (used in) operating activities				
Operating income (loss)	\$ (66,902,152)	\$ (70,100,211)	\$ 857,274	\$ 1,243,108
Adjustments to reconcile operating income (loss) to net cash provided from (used in) operating activities:				
Depreciation	11,663,569	10,550,627	34,642	34,463
Payments on behalf of the University	24,902,749	25,551,432	-	-
Non-cash stock, real estate gifts	-	-	(117,133)	(26,149)
Actuarial adjustments of new annuities and unitrusts	-	-	46,197	31,970
Changes in assets and liabilities:				
Account receivable	(1,577,465)	(907,042)	(3,180)	38,164
Inventory	90,039	89,934	-	-
Notes receivable	(28,461)	(98,388)	-	-
Other assets	(97,666)	(72,907)	141,392	(450,228)
Accounts payable	(4,478,453)	3,402,634	(5,594)	1,802
Deferred revenue	278,860	(1,122,877)	-	-
Compensated absences	(178,804)	(361,673)	-	-
Federal loan program refundable	165,931	77,576	-	-
Other long-term liabilities	120,342	(95,533)	-	-
Deposits	(3,505)	10,734	-	-
Net cash provided from (used in) operating activities	<u>\$ (36,045,016)</u>	<u>\$ (33,075,694)</u>	<u>\$ 953,598</u>	<u>\$ 873,130</u>
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS				
Change in fair value of investments	\$ 15,700	\$ 57,522	\$ 1,247,713	\$ 1,701,852
Change in interest receivable affecting interest received	\$ (22,810)	\$ 43,287	\$ -	\$ -
Change in accrued interest affecting interest paid	\$ (104,413)	\$ (52,823)	\$ 5,655	\$ (4,299)
Change in accrued costs relating to capital assets	\$ 146,377	\$ 302,401	\$ -	\$ -
Donation of capital assets	\$ 21,240,680	\$ 3,391,529	\$ -	\$ -
Capital assets acquired by capital lease obligations	\$ 63,980	\$ 408,841	\$ -	\$ -

See accompanying notes to financial statements.

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

	June 30, 2006		
	Foundation	Alumni Association	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 384,431	\$ 164,458	\$ 548,889
Restricted cash and cash equivalents	2,084,881	-	2,084,881
Short-term investments	49,300	417,383	466,683
Restricted short-term investments	1,830,455	-	1,830,455
Accounts receivable, net of allowance for doubtful accounts for doubtful accounts	132,936	106,051	238,987
Interest receivable	-	12,835	12,835
Other assets	553	963	1,516
Total current assets	4,482,556	701,690	5,184,246
Noncurrent assets			
Endowment investments	20,021,592	-	20,021,592
Restricted investments	21,486,321	-	21,486,321
Other long-term investments	-	741,573	741,573
Other long-term assets	71,803	339,053	410,856
Capital assets, net of accumulated depreciation	2,015,002	223,684	2,238,686
Total noncurrent assets	43,594,718	1,304,310	44,899,028
TOTAL ASSETS	\$ 48,077,274	\$ 2,006,000	\$ 50,083,274
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities	\$ 13,551	\$ 67	\$ 13,618
Long-term liabilities, current portion	322,850	-	322,850
Demand mortgage payable	1,512,238	-	1,512,238
Total current liabilities	1,848,639	67	1,848,706
Noncurrent liabilities			
Long-term liabilities	1,998,698	-	1,998,698
Due to others	5,421,365	-	5,421,365
Total noncurrent liabilities	7,420,063	-	7,420,063
Total liabilities	9,268,702	67	9,268,769
Net assets			
Invested in capital assets, net of related debt	502,764	223,684	726,448
Restricted for:			
Nonexpendable endowment	20,021,592	-	20,021,592
Expendable	17,869,384	-	17,869,384
Unrestricted	414,832	1,782,249	2,197,081
Total net assets	38,808,572	2,005,933	40,814,505
TOTAL LIABILITIES AND NET ASSETS	\$ 48,077,274	\$ 2,006,000	\$ 50,083,274

See accompanying notes to financial statements.

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

	For the Year Ended June 30, 2006		
	Foundation	Alumni Association	Total
OPERATING REVENUES			
Gifts	\$ 1,164,331	\$ 1,797	\$ 1,166,128
Service contract with the University	187,829	27,225	215,054
Budget allocation from the University	45,025	10,106	55,131
Membership dues	-	41,715	41,715
Merchandise sales	-	677	677
Royalties	-	13,623	13,623
Alumni promotions	-	380	380
Other operating revenues	135,429	327	135,756
Total operating revenues	<u>1,532,614</u>	<u>95,850</u>	<u>1,628,464</u>
OPERATING EXPENSES			
Educational and general			
Institutional support	606,902	129,646	736,548
Depreciation expense	28,643	5,999	34,642
Total operating expenses	<u>635,545</u>	<u>135,645</u>	<u>771,190</u>
Operating income (loss)	<u>897,069</u>	<u>(39,795)</u>	<u>857,274</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income (net)	1,205,847	51,467	1,257,314
Net increase (decrease) in fair market value of investments	1,278,216	(29,039)	1,249,177
Scholarships	(614,524)	(5,000)	(619,524)
Distributions to annuity/unitrust beneficiaries	(229,051)	-	(229,051)
Actuarial adjustments	267,150	-	267,150
Interest on capital asset-related debt	(98,565)	-	(98,565)
Grants to the University	(866,092)	(56,941)	(923,033)
Other nonoperating activity	(2,387)	-	(2,387)
Net nonoperating revenues (expenses)	<u>940,594</u>	<u>(39,513)</u>	<u>901,081</u>
Income before capital contributions	1,837,663	(79,308)	1,758,355
Additions to permanent endowments	1,314,678	-	1,314,678
Increase (decrease) in net assets	<u>3,152,341</u>	<u>(79,308)</u>	<u>3,073,033</u>
NET ASSETS			
Net assets, beginning of year	<u>35,656,231</u>	<u>2,085,241</u>	<u>37,741,472</u>
Net assets, end of year	<u>\$ 38,808,572</u>	<u>\$ 2,005,933</u>	<u>\$ 40,814,505</u>

See accompanying notes to financial statements.

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

	For the Year Ended June 30, 2006		
	Foundation	Alumni Association	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and vendors	\$ (440,827)	\$ (78,725)	\$ (519,552)
Royalties	-	123,985	123,985
Membership dues	-	43,861	43,861
Service contract with the University	78,625	-	78,625
Gifts	1,088,069	1,797	1,089,866
Promotional revenues	-	380	380
Other receipts	135,429	1,004	136,433
Net cash provided from operating activities	<u>861,296</u>	<u>92,302</u>	<u>953,598</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Grants to the University	(866,092)	(56,941)	(923,033)
Grants to organizations	(12,270)	-	(12,270)
Scholarships	(616,416)	(5,000)	(621,416)
Distributions to annuity/unitrust beneficiaries	(372,020)	-	(372,020)
Agency receipts	118,115	-	118,115
Agency payments	(215,580)	-	(215,580)
Private gifts other than capital purposes	1,256,852	-	1,256,852
Net cash used in noncapital financing activities	<u>(707,411)</u>	<u>(61,941)</u>	<u>(769,352)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest paid for capital debt and leases	(90,217)	-	(90,217)
Net cash used in capital and related financing activities	<u>(90,217)</u>	<u>-</u>	<u>(90,217)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale and maturities of investments	3,765,890	-	3,765,890
Interest received on investments	1,268,859	49,793	1,318,652
Sale of gift stock and real estate	140,784	-	140,784
Purchase of investments	(4,564,773)	(45,456)	(4,610,229)
Net cash provided by investing activities	<u>610,760</u>	<u>4,337</u>	<u>615,097</u>
Net increase in cash and cash equivalents	674,428	34,698	709,126
Cash and cash equivalents, beginning of year	<u>1,794,884</u>	<u>129,760</u>	<u>1,924,644</u>
Cash and cash equivalents, end of year	<u>\$ 2,469,312</u>	<u>\$ 164,458</u>	<u>\$ 2,633,770</u>
Reconciliation of operating income (loss) to net cash provided from operating activities			
Operating income (loss)	\$ 897,069	\$ (39,795)	\$ 857,274
Adjustments to reconcile net income or loss to net cash provided from operating activities:			
Depreciation expense	28,643	5,999	34,642
Non-cash stock, real estate gifts	(117,133)	-	(117,133)
Actuarial adjustment of new annuities and unitrusts	46,197	-	46,197
Changes in assets and liabilities:			
Accounts receivable	(5,326)	2,146	(3,180)
Royalties receivable	-	110,362	110,362
Other assets	17,502	13,528	31,030
Accounts payable	(5,656)	62	(5,594)
Net cash provided from operating activities	<u>\$ 861,296</u>	<u>\$ 92,302</u>	<u>\$ 953,598</u>
NONCASH INVESTING TRANSACTIONS			
Change in fair value of investments	\$ 1,276,752	\$ (29,039)	\$ 1,247,713
Change in accrued interest affecting interest paid	\$ 5,655	\$ -	\$ 5,655

See accompanying notes to financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Eastern Illinois University is a comprehensive, state-assisted, regional service institution. It is primarily an undergraduate institution, with the youngest student body of all Illinois public universities, and the highest proportion of residential students of all public universities in the nation. 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.

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

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 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. Complete financial statements for the Foundation can be obtained from the University's Administrative Office at 600 Lincoln Avenue, Charleston, IL 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. Complete financial statements for the Alumni Association can be obtained from the University's Administrative Office at 600 Lincoln Avenue, Charleston, IL 61920.

The University is a component unit of the State of Illinois and is included in the general purpose financial statements of the State of Illinois.

Financial Statement Presentation

The University has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and*

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Local Governments; GASB Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities; GASB Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures, and GASB Statement No. 40, Deposit and Investment Risk Disclosures. The financial statements of the University have been prepared in conformance with these statements.

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

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*

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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. 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.

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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 liability and expense incurred are recorded at year-end as accrued payments in the Statement of Net Assets, and 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.

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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 with the presentation in the current-year financial statements.

Classification of Revenues

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

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, 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

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and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, 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 \$24,902,749 representing \$20,812,389 and \$4,090,360 for group insurance and retirement costs, respectively. These costs are reflected as nonoperating 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 Pell grants, and 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.

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

Cash and Cash Equivalents

The University maintains deposits at financial institutions authorized by the Board of Trustees. The carrying amount of the University's deposits was \$35,881 as of June 30, 2006. These were fully covered by federal depository insurance. In addition, the University had cash on hand in various petty cash and change funds in the amount of \$37,690 as of June 30, 2006.

Investments

Illinois 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 Trustee regulations, the provisions of the Public Funds Investment Act (30 ILCS 235/2.5 et seq.) and the Uniform Management of Institutional Funds Act (760 ILCS 50/1-10).

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 duration ranges for investments as of June 30, 2006 are as follows:

Effective Duration	0-1 Year	1-4 Years
U.S. agency and government sponsored corporation	\$ 5,774,196	\$ 972,690
Mutual bond funds	140,744	-

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. As of June 30, 2006, all investments, other than the mutual bond fund, were in US agencies or government sponsored corporation

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securities, which are either explicitly or implicitly guaranteed by the U.S. Government. They are all classified as AAA rated securities. An assumption is made that callable investments will be held until maturity. During the fiscal year 2006, the University did invest in commercial paper. Commercial paper ratings must be in the 3 highest classifications established by at least 2 standard rating services. The mutual bond fund invests in AAA and AA rated securities. The average effective maturity is 8.5 years. The University's investment policy has no specific guidelines addressing the credit rating of mutual bond funds.

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

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Reconciliation to the Statement of Net Assets

A reconciliation of cash and investments as presented previously to amounts reported in the Statement of Net Assets as of June 30, 2006 are as follows:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash and cash equivalents	\$11,497,859	\$ -	\$11,497,859
Restricted cash and cash equivalents	16,193,981	-	16,193,981
Short-term investments	3,277,716	-	3,277,716
Restricted investments	2,514,726	972,690	3,487,416
Endowment investments	-	497,281	497,281
	<u>\$33,484,282</u>	<u>\$1,469,971</u>	<u>\$34,954,253</u>

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

Cash deposits	\$ 35,881
Petty cash funds	37,690
The Illinois Funds money market accounts	27,616,653
Money market accounts – LaSalle Bank	1,616
Money market accounts – Charles Schwab and Co., Inc.	515,527
U.S. Treasury/agency securities	6,746,886
	<u>\$34,954,253</u>

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2006:

Sales and services	\$ 2,266,587
Student tuition and fees	3,111,030
Auxiliary enterprises and other operating activities	2,189,483
Federal, State, and private grants and contracts	1,369,071
Others	2,245,057
Total	<u>11,181,228</u>
Less allowance for doubtful accounts	<u>(2,114,711)</u>
Net accounts receivable	<u>\$ 9,066,517</u>

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4. INVENTORIES

Inventories consisted of the following as of June 30, 2006

Bookstore	\$ 630,106
Facilities	602,614
Food services/housing	160,712
Postage	53,699
Union operation	50,704
Pharmacy	38,192
Others	4,206
	<u>\$ 1,540,233</u>

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, 2006. Under this 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 \$5,528,360 as of June 30, 2006, 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 June 30, 2006, the allowance for uncollectible loans was \$79,535.

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6. CAPITAL ASSETS

	For the Year ended June 30, 2006				6/30/2006
	6/30/2005	Additions	Deletions	Transfers	
(In thousands)					
Capital assets not being depreciated					
Land and land improvements	\$ 2,172	\$ -	\$ -	\$ 87	\$ 2,259
Capitalized collections	199	-	-	-	199
Construction in progress	21,061	31,314	950	(4,334)	47,091
Total capital assets not being depreciated	23,432	31,314	950	(4,247)	49,549
Capital assets being depreciated					
Site improvements	13,851	-	-	483	14,334
Buildings and building improvements	193,267	250	-	3,425	196,942
Equipment	49,931	7,903	4,146	689	54,377
Capital leases-equipment	380	63	-	(350)	93
Total capital assets being depreciated	257,429	8,216	4,146	4,247	265,746
Less accumulated depreciation for:					
Site improvements	7,135	693	-	-	7,828
Buildings and building improvements	81,146	5,051	-	-	86,197
Equipment	39,161	5,806	2,243	350	43,074
Capital leases-equipment	265	96	-	(350)	11
Total accumulated depreciation	127,707	11,646	2,243	-	137,110
Total capital assets, being depreciated, net	129,722	(3,430)	1,903	4,247	128,636
Capital assets, net	\$ 153,154	\$ 27,884	\$ 2,853	\$ -	\$ 178,185

7. CONSTRUCTION IN PROGRESS

The University had numerous construction projects in progress as of June 30, 2006. The Fine Arts Building project is to be funded mainly by appropriations to the Capital Development Board. The Coal Heat Plant project is only in the planning stages at this time, with funding sources still being identified. Below is a listing of the major construction projects in progress as of June 30, 2006:

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	Project Estimate	Expended to 6/30/06	Committed
Coal heat plant	\$ 50,000,000	\$ 74,600	\$ 49,925,400
Fine Arts building renovation	46,946,457	26,555,777	20,390,680
WEIU digitalization	1,223,158	1,062,800	160,358
Voice/video data infrastructure	6,096,151	5,176,581	919,570
Blair reconstruction	9,047,545	8,471,003	576,542
Various residence hall projects	3,845,031	2,325,790	1,519,241
Electrical distribution upgrade	4,233,055	1,395,907	2,837,148
Various bond facility projects	1,254,620	478,530	776,090
Other miscellaneous	3,289,058	1,549,892	1,739,166
	<u>\$ 125,935,075</u>	<u>\$ 47,090,880</u>	<u>\$ 78,844,195</u>

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of June 30, 2006:

Accounts payable	\$ 1,258,107
Accrued wages	5,543,616
Accrued expenses	1,881,794
Other	114,844
	<u>\$ 8,798,361</u>

9. DEFERRED REVENUES

Deferred revenues consisted of the following as of June 30, 2006:

Prepaid tuition and fees	\$ 1,412,073
Sales and services	229,172
Auxiliary enterprises	342,304
Grants and contracts	1,114,823
Miscellaneous	76,729
	<u>\$ 3,175,101</u>

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10. LONG-TERM LIABILITIES

		As of June 30, 2006				
		Balance			Balance	Amounts due
		6/30/2005	Additions	Reductions	6/30/2006	within one year
Revenue bonds, notes payable and Certificates of Participations						
Revenue bonds payable	(1)	\$ 44,945,000	\$ 19,345,000	\$ 21,390,000	\$ 42,900,000	\$ 2,060,000
Revenue bond discounts		(166,008)	-	(103,860)	(62,148)	(12,122)
Revenue bond premiums		-	343,271	56,452	286,819	40,647
Deferred accounting loss		-	(1,164,045)	(108,283)	(1,055,762)	(108,283)
Notes payable	(1)	267,051	-	68,709	198,342	198,342
Certificates of Participation	(2)	26,175,000	-	1,645,000	24,530,000	1,755,000
COPS premium		189,725	-	51,554	138,171	40,970
COPS discount		(216,749)	-	(20,393)	(196,356)	(20,393)
Capital lease obligations	(3)	728,402	63,980	730,803	61,579	26,420
Other liabilities						
Accrued compensated absences	*	14,716,776	-	178,804	14,537,972	1,260,272
Deposits	*	1,638,910	116,837	-	1,755,747	1,633,505
Federal loan program contributions	*	5,362,429	165,931	-	5,528,360	-
Total long-term liabilities		\$ 93,640,536	\$ 18,870,974	\$ 23,888,786	\$ 88,622,724	\$ 6,874,358

(1) See Note 11 for more information on revenue bonds and notes payable.

(2) See Note 12 for more information on Certificate of Participations.

(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 2006.

Total interest expense for the year ended June 30, 2006 was \$3,082,750. Of this amount, \$118,653 was capitalized as part of capital projects in progress.

**EASTERN ILLINOIS UNIVERSITY
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11. REVENUE BONDS AND NOTES PAYABLE

Revenue bonds payable consisted of the following as June 30, 2006:

\$34,720,000, Auxiliary Facilities System Revenue Bonds, Series 1998, term bonds due in semi-annual installments (principal only) of \$835,000 to \$1,255,000 through October 1, 2011; \$1,105,000 to \$1,595,000 through April 1, 2016; interest ranges from 4.4% to 5.0%; bonds maturing October 1, 2009 through April 1, 2016 are subject to mandatory redemption without premium in varying amounts. \$ 23,565,000

\$10,000,000, Auxiliary Facilities System Revenue Bonds, Series 2000, term bonds due in annual installments (principal only) of \$270,000 to \$300,000 through April 1, 2010; interest rate is 5.0%. 855,000

\$19,345,000, Auxiliary Facilities System Revenue Bonds, Series 2005, term bonds due in annual installments (principal only) of \$180,000 to \$1,260,000 through April 1, 2011; \$1,300,000 to \$1,595,000 through April 1, 2016; \$540,000 to \$1,370,000 through April 1, 2021; \$610,000 to \$730,000 through April 1, 2026; interest ranges from 3.0% to 5%. 18,480,000

Total bonds outstanding \$ 42,900,000

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.

All bonds outstanding are payable by the Board of Trustees solely from the net revenue of the Eastern Illinois University Auxiliary Facilities System (the "System") and from pledged tuition and fees, as well as from certain other funds

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pledged to pay the principal, redemption premiums, if any, and interest on the bonds.

As of June 30, 2006, \$20,407,408 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 balances of the related escrow funds were \$21,055,756 as of June 30, 2006.

The estimated annual amounts required for the payment of principal and interest on the outstanding revenue bonds as of June 30, 2006, are set forth in the following table:

Year ending June 30	Principal	Interest	Total Payments
2007	\$ 2,060,000	\$ 1,929,052	\$ 3,989,052
2008	3,095,000	1,837,628	4,932,628
2009	3,230,000	1,708,381	4,938,381
2010	3,360,000	1,572,358	4,932,358
2011	3,515,000	1,423,031	4,938,031
2012-2016	20,280,000	4,405,903	24,685,903
2017-2021	4,020,000	1,111,385	5,131,385
2022-2026	3,340,000	440,641	3,780,641
Total	<u>\$ 42,900,000</u>	<u>\$ 14,428,379</u>	<u>\$ 57,328,379</u>

The following reserve accounts were established by the bond resolutions for the 1998, 2000, and 2005 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

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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, 2006 compared with the amounts included within the accounts as of June 30, 2006 are as follows:

	Minimum Amount Required By Bond Resolution	Cash and Investments Deposited in the Account
Repair and Replacement Reserve Account	\$ <u> -</u>	<u>\$ 3,679,170</u>

EASTERN ILLINOIS UNIVERSITY
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Notes payable consisted of the following as of June 30, 2006:

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 \$ 146,278

University note payable to GE Capital Public Finance, to finance Daktronics scoreboards; payable in annual installments of \$55,917 including interest at 7.4%; final payment due August, 2006; secured by scoreboards. 52,064
\$ 198,342

Maturity Information

The scheduled maturities of the notes payable, if demand is made, are as follows:

Year ending June 30	Principal	Interest	Total Payments
2007	\$ 198,342	\$ 11,813	\$ 210,155

12. CERTIFICATES OF PARTICIPATION

The Certificates of Participation (COPS) consisted of the following as of June 30, 2006:

\$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%; bonds 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 Nonappropriation as defined in the Bond Resolution. \$ 7,580,000

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\$8,640,000 Certificates of Participation, Series 2003; due in annual installments (principal only) of \$695,000 beginning in August 15, 2004 to \$1,075,000 through August 15, 2013; interest ranges from 3% to 4%; bonds 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 Nonappropriation as defined in the Bond Resolution.

7,220,000

\$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%; bonds 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 Nonappropriation as defined in the Bond Resolution 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 bonds 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.

9,730,000

Total Certificates of Participation

\$24,530,000

Per the COPS Series 2001, COPS Series 2003, and the COPS Series 2005 official statements, the Board is obligated to make installment payments either from funds derived from State appropriations or from legally available nonappropriated funds. Such legally available nonappropriated 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, 2006, are set forth in the following table:

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Year ending June 30	Principal	Interest	Total Payments
2007	\$ 1,755,000	\$ 958,131	\$ 2,713,131
2008	2,150,000	889,138	3,039,138
2009	2,295,000	802,794	3,097,794
2010	2,455,000	709,944	3,164,944
2011	2,630,000	607,663	3,237,663
2012-2016	6,190,000	1,862,261	8,052,261
2017-2021	3,220,000	1,260,931	4,480,931
2022-2025	3,835,000	416,055	4,251,055
Total	<u>\$ 24,530,000</u>	<u>\$ 7,506,917</u>	<u>\$ 32,036,917</u>

13. LEASES PAYABLE

The University leases various computers and other 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, 2006:

Year ending June 30,	
2007	\$ 27,922
2008	21,170
2009	15,138
Total minimum lease payments	<u>64,230</u>
Less amount representing interest	<u>2,651</u>
Net present value of future minimum lease payment	<u><u>\$ 61,579</u></u>

The University also made rental payments under operating leases in 2006 of \$297,545 primarily for office space used by various grant activities, temporary fine arts facilities due to renovations, and the University's textbook rental system. The University expects that in the foreseeable future, rents in similar amounts will be incurred for temporary classroom space due to expansions on campus.

The University has two operating leases for the temporary fine arts facilities due to renovations. One lease agreement expired on August 31, 2005 and is being renewed on a month-by-month basis. The other lease was extended until

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August 2007. The amounts shown are for the signed lease agreements up until the point in time that they will become monthly renewals.

Year ending June 30,	Rental Payment
2007	\$ 72,000
2008	12,000
Total	<u>\$ 84,000</u>

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 writing to SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

Funding Policy

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.18% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the year ended June 30, 2006, 2005, and 2004 were \$4,384,895, \$7,009,881, and \$43,848,319, respectively, equal to the required contributions for each year.

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15. POST EMPLOYMENT BENEFITS

In addition to providing the above pension benefits, the State provides certain health, dental and life insurance benefits to the University's annuitants who participate in SURS. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Under the law in force at June 30, 1997, the retiree had fully paid health and dental insurance. As of January 1, 1998, the state will pay 5% of the monthly group insurance premiums for each year of service, until full coverage is reached after 20 years of service. Life insurance benefits for annuitants under the age of 60 are equal to their annual salary at the time of retirement; life insurance benefits for annuitants age 60 and older are limited to five thousand dollars per annuitant.

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. The cost of health, dental and life insurance benefits is recognized on a pay-as-you-go basis. These costs are funded by the State, except for certain non-appropriated funds funded by the University.

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 \$5 million with a \$350,000 self-insured retention.

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.

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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 \$15,000 per diagnosis for medical services and \$5,000 for mental illness and substance abuse. Total claims of \$824,378 were paid for the year ended June 30, 2006.

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. The balance of this reserve was \$161,505 as of June 30, 2006.

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 with funds to spend on general and educational purposes as well as capital items during fiscal year 2006. The University received from the State \$47,609,499 for general and educational purposes and \$381,209 for capital expenditures during the fiscal year 2006.

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 2006, the University received \$21,240,680 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 a part of this contract, to furnish certain services necessary to the operation of the Foundation which are to be repaid by the Foundation either in the form of money or its equivalent in services or resources.

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

During the year ended June 30, 2006, the Foundation gave the University \$928,447 of cash, services and resources, unrestricted or restricted only as to department, which were generally for on-going operations of the University. In addition, the Foundation gave the University restricted scholarships, grants and awards of

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\$614,524 during the year. Also, the Foundation received \$15,939 for the year ended June 30, 2006, in gifts from the University's restricted gift account with the donor's consent.

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

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

In fulfilling its fiscal year 2006 contract with the University, the Association incurred \$170,361 of expenses and \$27,225 of in-kind expenses. Included in the fiscal year 2006 expenses of \$170,361 are unrestricted gifts/grants of \$56,941 to the University. In addition, the Association provided the use of its facilities at no charge to the University. The value of these facilities was \$47,536 for the year ended June 30, 2006.

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.

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JUNE 30, 2006**

19. NATURAL CLASSIFICATIONS OF EXPENSES

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

Salaries	\$ 93,136,906
Benefits	31,430,768
Supplies	5,855,947
Contractual services	16,138,119
Utilities	3,356,344
Travel	1,910,338
Repairs and maintenance, equipment and buildings	4,526,612
Scholarships	4,979,286
Other	7,085,904
Depreciation	11,663,569
	<hr/>
	\$ 180,083,793

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 Treasurer of the State of Illinois. The Foundation also maintains deposits at those depository institutions authorized by the Foundation Board of Directors. These deposits are fully covered by Federal Depository Insurance.

Investments

The Foundation is authorized by the Board of Directors to invest funds in compliance with stated investment policies. Investments in real estate and farm properties are carried at cost, or when donated, at the fair value at the date of donation. All other investments are carried at their fair value, as determined by quoted market prices for investments that have readily available fair value. For investments for which a readily determinable fair value does not exist (e.g. private equities), the investments are valued at estimated fair values based on information

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provided by the fund managers. Because of the inherent uncertainty of valuation relating to the Foundation's investments in investee funds and their underlying investments, the estimate of fair value may differ from the values that would have been used had a ready market existed, and any difference could be material.

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

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

Custodial Credit Risk

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

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investment fund and not the physical securities. Cash surrender value of life insurance and real estate are also not subject to disclosure.

Concentration Risk

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

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

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

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

Interest Rate Risk

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

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

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

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Credit Risk

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

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

Reconciliation to the Statement of Net Assets

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

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

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

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

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 balance of this note was \$1,512,238 as of June 30, 2006. 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 10th day of each month. The principal is payable on demand, but if no demand is made, then on October 10, 2011.

In addition, the Foundation had amounts due to others as of June 30, 2006, in the amounts of \$5,421,365. 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.

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UNAUDITED DATA REQUIRED BY REVENUE BOND RESOLUTIONS
June 30, 2006

SCHEDULE OF INSURANCE

Insurance Coverage:

Property damage including building, 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.

	<u>Coverage Amount</u>	<u>Deductible</u>
Most building, contents, business interruption, electronic data processing and builders' risk	500,000,000	25,000
Boiler and Machinery	100,000,000	25,000
Flood	50,000,000	- *
Earthquake	100,000,000	25,000

Insurance company: Lexington Insurance Company

Policy period: July 1, 2005 to July 1, 2006

* 2% of total insurable value per building, per occurrence, subject to a minimum of \$1,000,000.

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June 30, 2006

RATES	<u>Double Occupancy</u>	<u>Single Occupancy</u>
Residence halls		
Summer 2005	\$ 949	N/A
Fall 2005		
5 meals	2,749	3,499
10 meals	2,871	3,621
12 meals	2,979	3,729
15 meals	3,098	3,848
Spring 2006		
5 meals	2,749	3,499
10 meals	2,871	3,621
12 meals	2,979	3,729
15 meals	3,098	3,848
Summer 2006	1,023	N/A

RATES	<u>Efficiency</u>	<u>One bedroom</u>	<u>Super Efficiency</u>
Married student housing (monthly rent)			
Fall 2005	\$ 378	\$ 397	\$ 353
Spring 2006	378	397	353
Summer 2006	378	397	353
University Court (semester)	<u>Range</u>		
Fall 2005	\$ 2,093	to	\$ 2,796
Spring 2006	2,093	to	2,796
Summer 2006 (8 week session)	832	to	924

	<u>Fees</u>
Bond revenue fees	
Summer 2005	\$ 263.25
Fall 2005	265.10
Spring 2006	265.10
Summer 2006	265.10

EASTERN ILLINOIS UNIVERSITY
UNAUDITED DATA REQUIRED BY REVENUE BOND RESOLUTIONS
June 30, 2006

ENROLLMENT DATA

<u>Enrollment Date</u>	<u>Undergraduate Students</u>	<u>Graduate Students</u>	<u>Extension Students</u>	<u>Total</u>
Summer 2005	1,880	840	1,422	4,142
Fall 2005	9,825	1,194	1,110	12,129
Spring 2006	9,097	1,185	1,132	11,414
Summer 2006	2,044	883	1,549	4,476

OCCUPANCY DATA

<u>OCCUPANCY</u>	<u>Occupancy</u>	<u>Rate Occupancy</u>	<u>% of Occupancy</u>	
Residence halls				
Summer 2005		32	150	21%
Fall 2005	(1)	3,932	4,689	84%
Spring 2006	(1)	3,663	4,689	78%
Summer 2006 (Intercession)		-	150	0%
Married student housing				
Summer 2005		106	154	69%
Fall 2005		154	154	100%
Spring 2006		148	154	96%
Summer 2006		91	154	59%
University Court				
Summer 2005		115	146	79%
Fall 2005		146	146	100%
Spring 2006		146	146	100%
Summer 2006		88	146	60%

(1) reflects adjustment for floor used for faculty offices during construction of new Fine Arts building