

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 and 2011
AND
INDEPENDENT AUDITOR'S REPORT

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

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EASTERN ILLINOIS UNIVERSITY
FOUNDATION

FOUNDATION OFFICIALS

June 30, 2012

The Foundation Board of Directors includes:

Mr. Jason Anselment, President
Mr. Timothy Burke, Vice President
Mr. William Robinson, Treasurer
Ms. Christine Reid Robertson, Secretary

Mr. Michael Cunningham
Ms. Judy Ethell
Mr. Michael Finkle
Dr. David Maurer
Mrs. Sue Payton
Mr. Chuck Witters

Ex-Officio Members:

Mr. Joseph Dively	EIU Board of Trustees
Dr. William Perry	EIU President
Mr. William Weber	EIU Vice President for Business Affairs
Mr. Robert Martin	EIU Vice President for University Advancement
Ms. Julie Sterling	EIU Alumni Association

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

Ms. Leslie McDaniel, CPA	Foundation Executive Officer
Ms. April Marchuk	Foundation Assistant Secretary
Ms. Nancy Zytka	Outreach Coordinator
Mr. Paul McCann, CPA	Director of Business Services/Treasurer
Ms. Tami Babbs	EIU Interim Assistant Comptroller
Ms. Sara Harwood	Foundation Accountant

The Foundation office is located at:

Neal Welcome Center
860 West Lincoln Avenue
Charleston, IL 61920

DOEHRING, WINDERS & CO. LLP

Certified Public Accountants

& Business Advisers

1601 LAFAYETTE AVENUE
MATTOON, ILLINOIS 61938

Independent Auditor's Report

Board of Directors
Eastern Illinois University Foundation
Charleston, Illinois

We have audited the accompanying financial statements of the business-type activities of Eastern Illinois University Foundation, a component unit of the State of Illinois and Eastern Illinois University (the Foundation), as of and for the years ended June 30, 2012 and 2011, which comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Foundation as of June 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2013, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8-16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Doehring, Winders & Co. LLP

March 4, 2013

DOEHRING, WINDERS & CO. LLP

Certified Public Accountants

& Business Advisers

1601 LAFAYETTE AVENUE

MATTOON, ILLINOIS 61938

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

Board of Directors
Eastern Illinois University Foundation
Charleston, Illinois

We have audited the financial statements of the business-type activities of Eastern Illinois University Foundation, a component unit of the State of Illinois and Eastern Illinois University (the Foundation), as of and for the years ended June 30, 2012 and 2011, which comprise the Foundation's basic financial statements, and have issued our report thereon dated March 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be a significant deficiency in internal control over financial reporting. (12-01). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 12-01.

The Foundation's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Foundation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Foundation's Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Doehring, Winders & Co. LLP

March 4, 2013

EASTERN ILLINOIS UNIVERSITY FOUNDATION

SCHEDULE OF FINDINGS

Year Ended June 30, 2012

12-01 INADEQUATE RECORDKEEPING OF ENDOWMENTS

The Foundation maintains a pooled investment fund to invest donations received as endowment gifts. Each month, the Foundation values the investments of the fund to determine the price of the future purchases and redemptions of the pool and to establish the number of units purchased and redeemed. During our testing, we noted several errors on the endowment spreadsheets which are used to calculate the fair market value (FMV) of this investment pool. This valuation is used to determine the value of buy-ins and sales for the month. The following errors were noted as described below.

- FMV at June 30, 2012 on the original endowment spreadsheets received was overstated by \$4,977,564 when compared to the final corrected endowment spreadsheets. Per review of spreadsheets and discussion with accounting personnel, this was mainly due to improperly including \$4,744,078 of cash on the FMV spreadsheet. This occurred since cash was included twice on the spreadsheet in the cash balance row and the new cash not transferred row on the spreadsheet. FMV for the following months was also significantly overstated due to doubling up of cash on the endowment spreadsheet as noted above:
 - a) October, November, and December of 2012 – overstated by \$469,975
 - b) January and February of 2012 - overstated by \$1,023,657
 - c) March of 2012 – overstated by \$1,024,564
 - d) April of 2012 – overstated by \$4,015,819
 - e) May of 2012 – overstated by \$4,034,078
- In addition to the FMV differences noted above, the FMV of alternative investments for Goldman Sachs (September 2011 through June 2012) and Portfolio Advisors VI (March 2012 through June 2012) were being recorded at FMV plus distributions, causing the following overstatements of FMV on the endowment spreadsheets: Goldman Sachs was overstated by \$126,505 for the months of September 2011 through November 2011, \$137,355 for the months of December 2011 through February 2012, \$177,246 for the months of March 2012 through June 2012; Portfolio Advisors VI was overstated by \$30,776 for the months of March 2012 through June 2012.
- Total units at June 30, 2012 on the original endowment spreadsheet were understated by 3,192.320 units. This was due to corrections required to revalue the endowment investment pool.
- FMV of Montauk was recorded as \$73,704 instead of \$73,074 for the months of September 2011 through November 2011 due to a transposition error, causing FMV to be overstated by \$630 for those months.
- FMV of Park Street Private Equities VII was left at the December 2011 through February 2012 values for March 2012 through May 2012, causing FMV to be understated by \$26,300 for those months.

EASTERN ILLINOIS UNIVERSITY FOUNDATION

SCHEDULE OF FINDINGS

Year Ended June 30, 2012

12-01 INADEQUATE RECORDKEEPING OF ENDOWMENTS (continued)

Good principles of internal control require that records be properly maintained to ensure that each donor's share of the endowment investment pool is properly recorded and accounted for. Failure to properly value the investments of the pooled investment fund can result in the misstatement of the value and units of future purchases and redemptions of the pool and result in the incorrect allocation of income and appreciation of the donor's respective share of this investment pool. The buy-ins, sales and income allocations have been corrected for the above discrepancies noted for the financial statements presented.

According to Foundation personnel, the spreadsheets were provided by staff prior to supervisory reviews being completed.

Recommendation

We recommend that the Foundation implement procedures to maintain adequate recordkeeping of endowments records and adequate review should be performed to ensure that records are complete and accurate. Reviews of endowment records should be performed on either a monthly or quarterly basis and reconciled to the 094 report.

Response

The Foundation's staff agrees with the finding. The Foundation will review and enhance it's reconciliation procedures for the endowment records.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Eastern Illinois University Foundation (the Foundation) annual financial report presents management's discussion and analysis of the financial performance of the Foundation during the fiscal years ended June 30, 2012 and 2011. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of Foundation management.

Reporting Entity

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

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

Using the Annual Report

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

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

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Using the Annual Report, continued

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

The Statements 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 this reporting model, gifts to the Foundation are considered operating revenues, while investment income is considered nonoperating revenue. Additionally, payments for scholarships, distributions to beneficiaries and grants to the University are treated as nonoperating expenses.

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

Financial Highlights

The Foundation's financial position increased during the fiscal year ended June 30, 2012. Total net assets increased by approximately \$4.6 million (8.0%) from June 30, 2011. This is attributable to various factors. The Foundation received approximately \$4.2 million in additional permanent endowments, gifts and other operating revenues exceeded operating expenses by \$3.0 million, and net nonoperating revenues (expenses) were \$(2.6) million during fiscal year 2012.

The decrease in the change in net assets between fiscal years 2012 and 2011 was approximately \$4.3 million. The main reason for this decrease was the \$7.5 million decrease in net investment income between 2012 and 2011. Also, additions to permanent endowments increased \$2.9 million between 2012 and 2011.

The Foundation's financial position increased during the fiscal year ended June 30, 2011. Total net assets increased by approximately \$8.9 million (18.5%) from June 30, 2010. This is attributable to various factors. The fair value of investments increased by approximately \$6.8 million; the Foundation received approximately \$1.3 million in additional permanent endowments; and gifts and other operating revenues exceeded operating expenses by \$1.8 million during fiscal year 2011.

The increase in the change in net assets between fiscal years 2011 and 2010 was approximately \$4.1 million. The main reason for this increase was the \$3.0 million increase in net investment income between 2011 and 2010.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Condensed Financial Information

Condensed Statement of Net Assets, June 30:

	2012	2011	2010
ASSETS			
Current assets	\$ 8,194,279	\$ 6,641,640	\$ 6,083,865
Noncurrent assets:			
Capital assets, net of accumulated depreciation	1,843,144	1,871,787	1,900,430
Other	60,252,387	57,598,213	48,637,146
Total noncurrent assets	62,095,531	59,470,000	50,537,576
Total assets	\$ 70,289,810	\$ 66,111,640	\$ 56,621,441
LIABILITIES			
Current liabilities	\$ 1,465,170	\$ 1,616,841	\$ 1,684,247
Noncurrent liabilities	6,799,468	7,073,485	6,464,328
Total liabilities	8,264,638	8,690,326	8,148,575
NET ASSETS			
Invested in capital assets, net of related debt	455,906	484,549	463,192
Restricted for:			
Nonexpendable endowment	40,270,237	35,739,020	34,177,143
Expendable	20,749,578	20,736,974	13,330,054
Unrestricted	549,451	460,771	502,477
Total net assets	62,025,172	57,421,314	48,472,866
Total liabilities and net assets	\$ 70,289,810	\$ 66,111,640	\$ 56,621,441

At June 30, 2012, total current assets of approximately \$8.2 million included approximately \$3.8 million of cash and cash equivalents and \$3.8 million of investments. This is an approximate \$1.6 million increase between 2012 and 2011.

The Foundation's largest noncurrent assets for June 30, 2012, are its endowment investments of approximately \$36.6 million and restricted long-term investments of approximately \$19.6 million. At June 30, 2012, the fair market value of certain endowment funds were below their original cost by \$760,192. The approximate \$2.6 increase in noncurrent investments between 2012 and 2011 can be mainly attributed to the increase in restricted cash and cash equivalents of approximately \$2.9 million.

At June 30, 2011, total current assets of approximately \$6.6 million included approximately \$3.3 million of cash and cash equivalents and \$2.9 million of investments. This is an approximate \$.4 million increase between 2011 and 2010.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Condensed Financial Information, continued

The Foundation's largest noncurrent assets for June 30, 2011, are its endowment investments of approximately \$35.2 million and restricted long-term investments of approximately \$21.7 million. The approximate \$8.7 million increase in noncurrent investments between 2011 and 2010 can be mainly attributed to the increase in fair value of investments of approximately \$6.8 million.

The Foundation's liabilities at June 30, 2012, total approximately \$8.3 million. Of this balance, approximately \$6.8 million is the actuarial value of estimated future payments to beneficiaries of annuities and unitrusts plus the assets held by the Foundation as trustee. Liabilities also consist of an approximate \$1.4 million demand mortgage note payable on the Neal Welcome Center.

The Foundation's liabilities at June 30, 2011, total approximately \$8.7 million. Of this balance, approximately \$7.3 million is the actuarial value of estimated future payments to beneficiaries of annuities and unitrusts plus the assets held by the Foundation as trustee. Liabilities also consist of an approximate \$1.4 million demand mortgage note payable on the Neal Welcome Center.

The Foundation's current assets of approximately \$8.2 million for June 30, 2012, were sufficient to cover current liabilities of approximately \$1.5 million. The ratio of current assets to current liabilities is \$5.59 in current assets for every \$1 in current liabilities for fiscal year 2012.

The Foundation's current assets of approximately \$6.6 million for June 30, 2011, were sufficient to cover current liabilities of approximately \$1.6 million. The ratio of current assets to current liabilities is \$4.11 in current assets for every \$1 in current liabilities for fiscal year 2011.

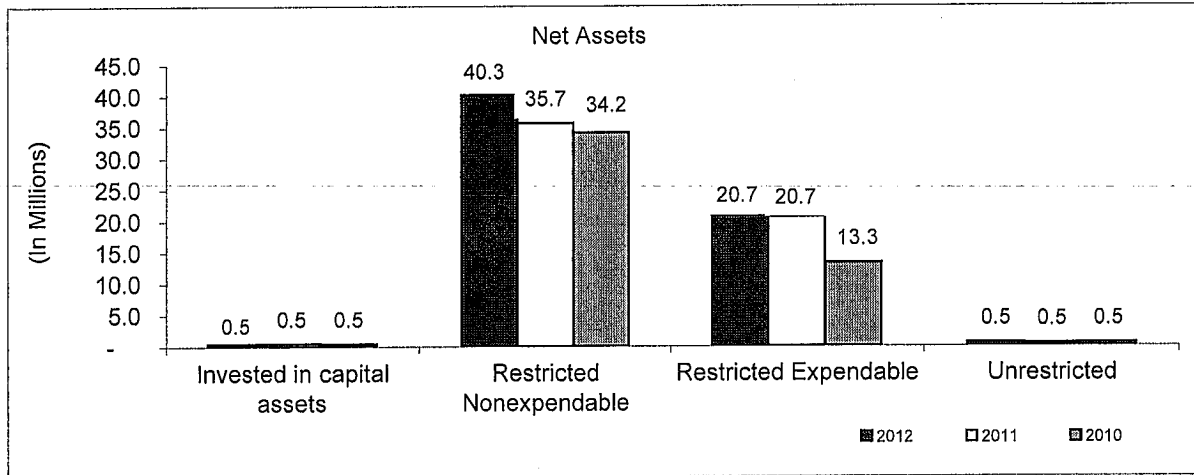
The Foundation's total net assets at June 30, 2012, totaled approximately \$62.0 million, a \$4.6 million increase over total net assets of \$57.4 million at June 30, 2011. Net assets classified as "invested in capital assets, net of related debt" remained approximately the same for 2012. Net assets classified as "restricted, nonexpendable endowment" increased by approximately \$4.5 million from 2011 to 2012 due mainly to the endowment gifts received during fiscal year 2012. Net assets classified as "restricted, expendable" remained relatively the same from fiscal year 2011 to 2012.

The Foundation's total net assets at June 30, 2011, totaled approximately \$57.4 million, a \$8.9 million increase over total net assets of \$48.5 million at June 30, 2010. Net assets classified as "invested in capital assets, net of related debt" remained approximately the same for 2011. Net assets classified as "restricted, nonexpendable endowment" increased by approximately \$1.6 million from 2010 to 2011 due mainly to the endowment gifts received during fiscal year 2011. Net assets classified as "restricted, expendable" increased by approximately \$7.4 million from 2010 to 2011, the result of the increase in fair value of investments and a decrease in the grants to the University.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Condensed Financial Information, continued



Condensed Statement of Revenues, Expenses and Changes in Net Assets

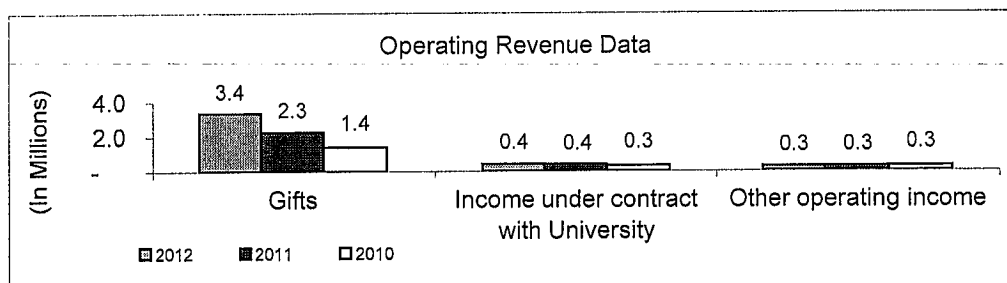
	For the years ended June 30,		
	2012	2011	2010
Operating revenues			
Gifts	\$ 3,378,642	\$ 2,268,994	\$ 1,417,406
Other operating revenues	703,421	673,973	628,147
Total operating revenues	4,082,063	2,942,967	2,045,553
Operating expenses	1,078,473	1,122,220	925,575
Operating income	3,003,590	1,820,747	1,119,978
Nonoperating revenues (expenses)			
Investment income and net increase in fair value of investments	779,966	8,249,334	5,271,911
Scholarships	(960,612)	(809,851)	(884,338)
Grants to University	(2,575,694)	(1,389,601)	(1,594,470)
Other nonoperating (expenses)	199,298	(202,278)	(164,836)
Net nonoperating revenues (expenses)	(2,557,042)	5,847,604	2,628,267
Income before capital contributions	446,548	7,668,351	3,748,245
Additions to permanent endowments	4,157,310	1,280,097	1,075,528
Total increase in net assets	4,603,858	8,948,448	4,823,773
Net assets-beginning of year	57,421,314	48,472,866	43,649,093
Net assets - end of year	\$ 62,025,172	\$ 57,421,314	\$ 48,472,866

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Operating Revenues

Total operating revenues were \$4.1 million and \$2.9 million for the years ended June 30, 2012 and 2011, respectively. The most significant source of revenue were gifts of \$3.4 million in 2012 and \$2.3 million in 2011, as shown below:



Gifts

The Foundation receives gifts from many sources and for different purposes. There are gifts from telefund drives which are usually used by the University for current operations and scholarships; gifts for various projects such as the Neal Welcome Center, Old Main renovation and the Commemorative Courtyard; and planned (deferred) giving gifts by donors used in estate planning. Currently, EIU is in the middle of a capital campaign and EIUF has received several gifts as a result of those solicitations. Gifts of permanent endowments for scholarships or to support programs and departments are shown after the nonoperating section of the statement.

During fiscal year 2012, there was a total of approximately \$3.4 million of unrestricted and restricted gifts and approximately \$4.2 million of additions to permanent endowments. There were no deferred gifts donated to the Foundation this year.

During fiscal year 2011, there was a total of approximately \$2.3 million of unrestricted and restricted gifts and approximately \$1.3 million of additions to permanent endowments. There were no deferred gifts donated to the Foundation this year.

Operating Expenses

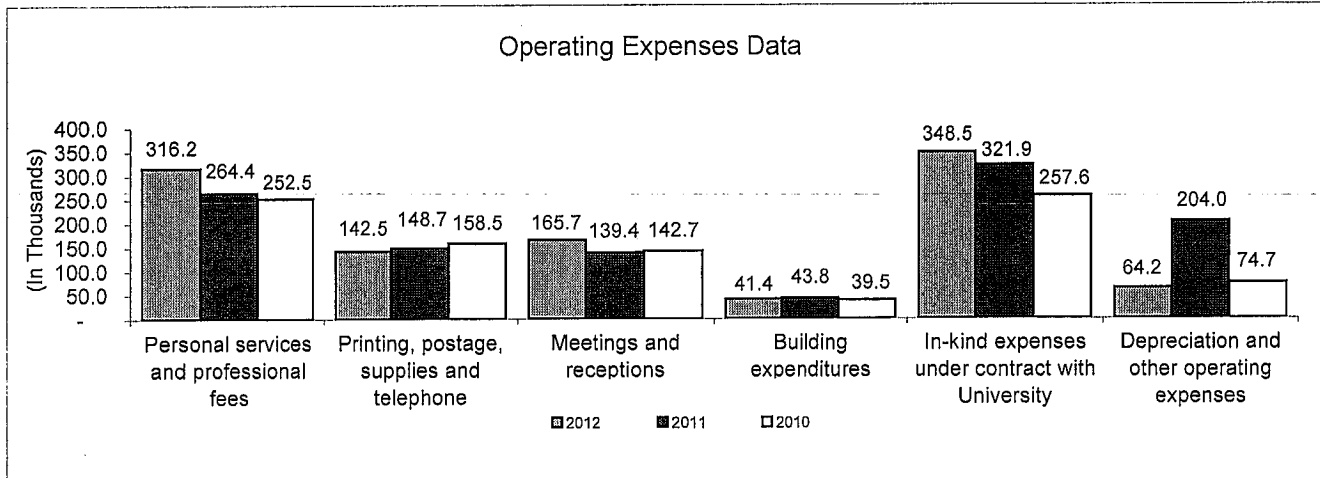
Operating expenses for fiscal year 2012, including depreciation of \$28,643, totaled \$1,078,473. Of this total, \$316,210 or 29.3% was for personal services and professional fees, and \$348,542 or 32.3% was in-kind expenses under contract with the University.

Operating expenses for fiscal year 2011, including depreciation of \$28,643, totaled \$1,122,220. Of this total, \$264,398 or 23.4% was for personal services and professional fees, and \$321,856 or 28.7% was in-kind expenses under contract with the University.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Operating Expenses, continued



Other

Nonoperating revenues (expenses) for fiscal year 2012 consisted of investment income, actuarial adjustments, scholarships to students and grants to the University. The \$8.4 million decrease in nonoperating revenue (expenses) between 2012 and 2011 is mainly due to the decrease in investment income (which includes dividend and interest income and the change in the fair value of investments) of approximately \$7.5 million. During fiscal year 2012, the Foundation awarded 906 scholarships totaling \$960,612 and made grants to the University of approximately \$2.6 million. As noted previously, there was approximately \$4.2 million of additions to permanent endowments.

Nonoperating revenues (expenses) for fiscal year 2011 consisted of investment income, actuarial adjustments, scholarships to students and grants to the University. The \$3.2 million increase in nonoperating revenue (expenses) between 2011 and 2010 is mainly due to the increase in investment income (which includes dividend and interest income and the change in the fair value of investments) of approximately \$3.0 million. During fiscal year 2011, the Foundation awarded 818 scholarships totaling \$809,851 and made grants to the University of approximately \$1.4 million. As noted previously, there was approximately \$1.3 million of additions to permanent endowments.

The Statement of Cash Flows

Condensed Statement of Cash Flows

	For the years ended June 30		
	2012	2011	2010
Cash provided (used) by:			
Operating activities	\$ 2,297,515	\$ 1,184,723	\$ 1,135,526
Noncapital financing activities	470,599	(1,195,977)	(1,641,838)
Capital and related financing activities	(71,974)	(124,670)	(82,496)
Investing activities	646,884	(96,736)	20,287
Net increase (decrease) in cash and cash equivalents	3,343,024	(232,660)	(568,521)
Cash and cash equivalents, July 1	3,679,257	3,911,917	4,480,438
Cash and cash equivalents, June 30	<u>\$ 7,022,281</u>	<u>\$ 3,679,257</u>	<u>\$ 3,911,917</u>

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

The Statement of Cash Flows, continued

For fiscal year 2012, the major source of funds included in operating activities is cash gifts of \$2.6 million. The major use of funds included in noncapital financing activities are grants to the University of \$2.6 million, an increase from 2011 of approximately \$1.2 million, due mainly to the timing of transfer requests by University departments. Other major uses of funds are scholarships of \$936,588 and distributions to deferred giving beneficiaries of \$173,698. The net uses of capital and related financing activities include \$71,974, which is entirely payments of interest on the Neal Welcome Center mortgage note. The major sources of funds from investing activities are the investment income receipts of approximately \$1.4 million, a decrease from fiscal year 2011 because of a decrease on returns on investments, and the proceeds from the sale of investments of approximately \$1.3 million. The major use of funds included in investing activities in 2012 is the purchase of investments of approximately \$2.0 million, a decrease of approximately \$1.3 million from 2011 mainly due to a decrease in investment trading activities.

For fiscal year 2011, the major source of funds included in operating activities is cash gifts of \$1.6 million. The major use of funds included in noncapital financing activities are grants to the University of \$1.4 million, a decrease from 2010 of \$204,869 due mainly to the timing of transfer requests by University departments. Other major uses of funds are scholarships of \$813,099 and distributions to deferred giving beneficiaries of \$215,013. The net uses of capital and related financing activities of \$124,670 includes a \$74,670 payment of interest and a \$50,000 payment of principal on the Neal Welcome Center mortgage note. The major sources of funds from investing activities are the investment income receipts of approximately \$1.5 million, an increase from fiscal year 2010 because of an increase on returns on investments, and the proceeds from the sale of investments of approximately \$1.6 million. The major use of funds included in investing activities in 2011 is the purchase of investments of approximately \$3.3 million, a decrease of approximately \$1.6 million from 2010 mainly due to a decrease in investment trading activities.

The Foundation's Economic Outlook

The Foundation's operations are supported by a variety of revenue sources, including the contract with the University, a trust distribution, administrative fees generated from investments, and earnings from endowment funds restricted for Foundation operations. The Board has approved an increase in the administrative fee assessed on the trusts, moving from .75% to 1.0% for FY11, FY12 and FY13, and then to 1.25% in FY14 and thereafter. The University has recently completed a major campaign with results exceeding the goal of \$50 million, which should add significantly to the revenues for Foundation operations in the upcoming years.

The Neal Welcome Center, built in 2002, is beginning to incur minor repair and maintenance expenses as use of the facility increases and the building ages. The Board has established a reserve for deferred maintenance to cover expenses for the future upkeep of the building. The Board annually evaluates the expense side of the budget, and is prudent on how it allocates and where it spends resources available for its operations. As part of this annual review, the Board also evaluates its cash reserves and cash flow to determine if partial payment to the principal of the building loan will effectively reduce the interest expense. A \$50,000 payment to principal in August 2010 and a renegotiation of the interest rate from 5.75% to 5.25% has saved the Foundation about \$9,800 per year. The renegotiation of the interest rate extended the note's due date from October, 2011 to August, 2014.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

The Foundation's Economic Outlook, continued

Due to the asset allocation recommended by the investment consultants and approved by the Investment Committee, the endowment's fiscal year increase in investment value of 1.6% was better than the estimated median NACUBO's institution decrease of 0.3%. However, the three-year annualized return is 11.6%. As scholarship payouts are based on a three-year rolling average, the three-year annualized number is important to our targeted annual payouts. The Committee executed several portfolio changes during the fiscal year to reduce risk while boosting the tilt towards quality stocks and inflation-protection assets. The Committee remains focused on its objective of achieving a minimum return of 7.5%.

Note--The Eastern Illinois University Foundation is not required to present budgetary comparison information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements because the Eastern Illinois University Foundation is not legally required to adopt a budget.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 483,018	\$ 438,839
Restricted cash and cash equivalents	3,284,521	2,902,903
Restricted investments	3,811,604	2,872,973
Other current investments	32,000	32,000
Restricted pledges receivable	369,421	252,008
Endowment pledges receivable	151,122	81,840
Accounts receivable	261	111
Grain Inventory	60,000	59,200
Prepaid expenses	2,332	1,766
Total current assets	8,194,279	6,641,640
Noncurrent assets:		
Restricted cash and cash equivalents	3,254,742	337,515
Endowment investments	36,566,385	35,230,786
Restricted investments	19,587,079	21,727,404
Pledges receivable, less current portion	546,193	213,629
Endowment pledges receivable, less current portion	297,988	88,879
Capital assets, net of accumulated depreciation	1,843,144	1,871,787
Total noncurrent assets	62,095,531	59,470,000
Total assets	\$ 70,289,810	\$ 66,111,640
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 31,209	\$ 7,843
Accrued interest	4,848	3,991
Annuities payable, current portion	41,875	217,769
Demand mortgage payable	1,387,238	1,387,238
Total current liabilities	1,465,170	1,616,841
Noncurrent liabilities:		
Annuities payable, less current portion	260,012	791,962
Due to others	6,539,456	6,281,523
Total noncurrent liabilities	6,799,468	7,073,485
Total liabilities	8,264,638	8,690,326
NET ASSETS		
Invested in capital assets, net of related debt	455,906	484,549
Restricted for:		
Nonexpendable endowment	40,270,237	35,739,020
Expendable	20,749,578	20,736,974
Unrestricted	549,451	460,771
Total net assets	62,025,172	57,421,314
Total liabilities and net assets	\$ 70,289,810	\$ 66,111,640

The accompanying notes are an integral part of these financial statements.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Gifts	\$ 3,378,642	\$ 2,268,994
Service contract with University	221,236	230,330
Budget allocation from University	205,931	170,151
Other operating income	276,254	273,492
Total operating revenues	4,082,063	2,942,967
OPERATING EXPENSES		
Personal services	163,537	133,287
Printing	32,570	37,279
Postage and supplies	72,688	79,455
Telephone	37,233	31,982
Dues, subscriptions and promotion	10,585	10,361
Meetings and receptions	165,715	139,431
Professional fees	152,673	131,111
Bad debt expense	97	800
Computer maintenance	2,715	2,715
Insurance	17,925	13,884
Building expenditures	41,356	43,790
Tools and small equipment	1,969	194
Auto expenses	2,225	1,371
Return of Contribution	-	146,061
Depreciation	28,643	28,643
In-kind expenses under contract with the University		
Personnel expenses	140,181	149,125
Utilities and maintenance	2,430	2,580
Budget expended at the University	205,931	170,151
Total operating expenses	1,078,473	1,122,220
Operating income	3,003,590	1,820,747
NONOPERATING REVENUES (EXPENSES)		
Investment income:		
Interest and dividends	1,324,377	1,438,102
Net increase (decrease) in fair value of investments	(544,411)	6,811,232
Scholarships	(960,612)	(809,851)
Distributions to annuity/unitrust beneficiaries	(108,193)	(128,951)
Actuarial adjustments	380,321	806
Interest on capital asset-related debt	(72,830)	(74,133)
Grants to University	(2,575,694)	(1,389,601)
Net nonoperating revenue (expenses)	(2,557,042)	5,847,604
Gain before capital contributions	446,548	7,668,351
Additions to permanent endowments	4,157,310	1,280,097
Increase in net assets	4,603,858	8,948,448
NET ASSETS		
Net assets-beginning of year	57,421,314	48,472,866
Net assets - end of year	\$ 62,025,172	\$ 57,421,314

The accompanying notes are an integral part of these financial statements.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

STATEMENTS OF CASH FLOWS

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Cash received from gifts	\$ 2,645,201	\$ 1,605,726
Cash received from service contract with University	78,625	78,625
Cash received from other sources	276,254	273,493
Cash paid to suppliers and other vendors	(702,565)	(773,121)
Net cash provided by operating activities	2,297,515	1,184,723
Cash flows from noncapital financing activities		
Grants to the University	(2,575,694)	(1,389,601)
Scholarships	(936,588)	(813,099)
Distributions to annuity/unitrust beneficiaries	(173,698)	(215,013)
Agency receipts	258,274	217,063
Agency payments	(233,784)	(244,082)
Gifts received for endowment purposes	4,132,089	1,248,755
Net cash provided (used) by noncapital financing activities	470,599	(1,195,977)
Cash flows from capital and related financing activities		
Interest paid	(71,974)	(74,670)
Mortgage loan payment	-	(50,000)
Net cash (used) by capital and related financing activities	(71,974)	(124,670)
Cash flows from investing activities		
Proceeds from the sale of investments	1,267,935	1,614,421
Investment income (net of fees)	1,371,123	1,476,842
Sale of gift stock and real estate	39,998	97,963
Purchase of investments	(2,032,172)	(3,285,962)
Net cash provided (used) by investing activities	646,884	(96,736)
Net increase (decrease) in cash and cash equivalents	3,343,024	(232,660)
Cash and cash equivalents, July 1	3,679,257	3,911,917
Cash and cash equivalents, June 30	\$ 7,022,281	\$ 3,679,257
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 3,003,590	\$ 1,820,747
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash stock, real estate gifts	(5,073)	(74,354)
Depreciation expense	28,643	28,643
Bad debt expense	97	800
Change in assets and liabilities:		
Accounts receivable	(728,368)	(588,913)
Prepaid expense	(566)	18,692
Accounts payable	(808)	(20,892)
Net cash provided by operating activities	\$ 2,297,515	\$ 1,184,723

The accompanying notes are an integral part of these financial statements.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

STATEMENTS OF CASH FLOWS, CONTINUED

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Noncash investing, noncapital financing, and capital and related financing transactions		
Change in fair value of investments	<u>\$ (544,411)</u>	<u>\$ 6,811,232</u>
Change in accrued interest affecting interest paid	<u>\$ 857</u>	<u>\$ (537)</u>

The accompanying notes are an integral part of these financial statements.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Operations

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

Financial Reporting Entity

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

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

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

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

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

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Statement Presentation

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

Basis of Accounting

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

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

Cash Equivalents

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

Investments

The Foundation accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in the unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses and Changes in Net Assets. Additionally, as a result of the adoption of GASB No. 52, all land held by endowments is valued at fair value. All other investments in land are valued at historical cost.

Restricted Assets

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. The Foundation's capitalization threshold for capital assets is as follows: equipment \$5,000 or greater, land \$100,000 or greater, buildings \$100,000 or greater and building improvements \$25,000 or greater.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets, continued

Renovations to buildings and equipment that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

Noncurrent Liabilities

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

Panther Club

The purpose of the Panther Club, a division of the Foundation, is to raise funds for the University's Athletic Department. The amounts raised are recorded as gifts. The costs of the Panther Club are paid through its fund-raising activities.

Net Assets

The Foundation's net assets are classified as follows:

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

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

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

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

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

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

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

Gifts of Future Interests

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

Classification of Revenues

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

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

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

Use of Estimates

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

2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

A reconciliation of cash and investments as shown on the June 30, 2012 and 2011 Statements of Net Assets are as follows:

	June 30, 2012		Total
	Current	Noncurrent	
Cash and cash equivalents	\$ 483,018	\$ -	\$ 483,018
Restricted cash and cash equivalents	3,284,521	3,254,742	6,539,263
Restricted investments	3,811,604	19,587,079	23,398,683
Other current investments	32,000	-	32,000
Endowment investments	-	36,566,385	36,566,385
	<u>\$ 7,611,143</u>	<u>\$ 59,408,206</u>	<u>\$ 67,019,349</u>

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

2 CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued

	June 30, 2011		
	Current	Noncurrent	Total
Cash and cash equivalents	\$ 438,839	\$ -	\$ 438,839
Restricted cash and cash equivalents	2,902,903	337,515	3,240,418
Restricted investments	2,872,973	21,727,404	24,600,377
Other current investments	32,000	-	32,000
Endowment investments	-	35,230,786	35,230,786
	<u>\$ 6,246,715</u>	<u>\$ 57,295,705</u>	<u>\$ 63,542,420</u>

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

	2012	2011
The Illinois Funds money market accounts	\$ 7,022,281	\$ 3,679,257
Money market accounts administered by First-Mid-Illinois Bank and Trust	125,119	111,388
Money market accounts administered by Charles Schwab & Co., Inc.	1,050,869	1,018,850
Investments administered by Charles Schwab & Co., Inc.		
Open Ended Mutual Bond funds	10,443,460	10,799,503
Open Ended Mutual Equity funds	30,829,271	31,092,244
Corporate Equity - Student Investment	46,673	88,482
Investments administered by Brandywine Global		
Open Ended Mutual Bond fund	1,293,005	1,199,120
Investments administered by Davis Funds		
Open Ended Mutual Equity funds	-	396,490
Investments administered by First Mid-Illinois Bank		
Corporate Equity - Cooperatives Stock	1,780	1,774
Alternative Investments		
Investments administered by Corbin Pinehurst	4,653,175	4,550,325
Investments administered by CITCO Fund Services	3,417,007	3,469,586
Investments administered by Park Street Capital	1,036,277	940,466
Investments administered by Goldman Sachs	625,551	536,403
Investments administered by Portfolio Advisors	651,882	283,938
Investments administered by Montauk	79,498	-
Life insurance cash values	83,367	79,460
Real estate	5,660,134	5,295,134
Total cash and investments	<u>\$ 67,019,349</u>	<u>\$ 63,542,420</u>

Cash and Cash Equivalents

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

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

2 CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued

Investments

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

If a donor has not provided specific instructions, Illinois Compiled Statutes (760 ILCS 51/4) 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 requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The long-term objective of the endowment funds, as determined by the Board of Directors, is to achieve a total return in excess of its current spending rate policy over a twenty-year time horizon. The current rate of the spending rate policy is 5% per year, comprised of a 4.25% spending rate and 0.75% for administrative expenses. In addition to achieving the 5% spending rate policy, the policy asset allocation is designed to cover the costs of inflation, investment management/consulting fees, and other related costs. The spending allowance calculation is determined by taking the spending rate (currently 5%) times the investment portfolio's trailing twelve-quarter average market value, as of June 30th of each year. Any remaining return over the 5% spending rate will be retained for use in future years. As of June 30, 2012 net appreciation of \$10,267,314 is available to be spent, but is restricted to specific purposes.

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, 2012 and 2011, are disclosed as follows:

<u>Effective Maturity</u>	June 30, 2012					<u>Total</u>
	<u>0-1 Year</u>	<u>1-5 Year</u>	<u>5-10 Year</u>	<u>10-15 Year</u>	<u>15-20 Year</u>	
The Illinois Funds	\$ 7,022,281	\$ -	\$ -	\$ -	\$ -	\$ 7,022,281
Money Market Funds	1,175,988	-	-	-	-	1,175,988
Mutual Bond Funds	-	1,314,901	9,128,559	1,293,005	-	11,736,465

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

2 CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued

Interest Rate Risk - continued

<u>Effective Maturity</u>	June 30, 2011					<u>Total</u>
	<u>0-1 Year</u>	<u>1-5 Year</u>	<u>5-10 Year</u>	<u>10-15 Year</u>	<u>15-20 Year</u>	
The Illinois Funds	\$ 3,679,257	\$ -	\$ -	\$ -	\$ -	\$ 3,679,257
Money Market Funds	1,130,238	-	-	-	-	1,130,238
Mutual Bond Funds	-	7,780,402	3,019,101	-	1,199,120	11,998,623

The Foundation does not have a policy that specifically addresses interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Foundation has no specific guidelines addressing the credit rating of fixed income securities. The quality ratings for investments disclosed as of June 30, 2012 and 2011, are as follows:

June 30, 2012

<u>Quality Rating</u>	<u>AAA</u>	<u>Not Rated</u>
The Illinois Funds	\$ 7,022,281	\$ -
Money Market Funds	125,119	1,050,869
Mutual Bond Funds	-	11,736,465
Total	<u>\$ 7,147,400</u>	<u>\$ 12,787,334</u>

June 30, 2011

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

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

Custodial Credit Risk

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

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

2 CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued

Custodial Credit Risk - continued

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

Concentration Risk

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

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

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

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

3 PLEDGES RECEIVABLE

Unconditional pledges receivable consists of the following:

	2012	2011
Gross unconditional pledges receivable -		
Restricted to athletic facilities improvements	\$ 42,000	\$ 43,097
Campaign pledges:		
Restricted by donor	943,039	439,295
Endowed by donor	491,320	176,267
Less: Unamortized discount	(111,635)	(22,303)
Net unconditional pledges receivable	\$ 1,364,724	\$ 636,356
Current:		
Restricted pledges receivable	\$ 369,421	\$ 252,008
Endowment pledges receivable	151,122	81,840
Total current pledges receivable	520,543	333,848
Non-current:		
Restricted pledges receivable	546,193	213,629
Endowment pledges receivable	297,988	88,879
Total non-current pledges receivable	844,181	302,508
Total current and non-current pledges receivable	\$ 1,364,724	\$ 636,356

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

3 PLEDGES RECEIVABLE - Continued

Unconditional pledges receivable consists of the following (continued):

Amounts due in:		
Less than one year	\$ 520,543	\$ 333,848
One to five years	790,846	257,540
More than five years	53,335	44,968
	<u>\$ 1,364,724</u>	<u>\$ 636,356</u>

Unconditional pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using discount rates from of 3.25% to 8.25%.

Uncollectible amounts for unconditional pledges receivable are expected to be insignificant. Accordingly, no provision is made for uncollectible amounts. Pledges receivable valued at \$97 and \$800 were determined to be uncollectible and written off during the fiscal years ended June 30, 2012 and 2011, respectively.

4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	6/30/2011	Additions	Deletions	6/30/2012
Capital assets not being depreciated:				
Land	\$ 695,930	\$ -	\$ -	\$ 695,930
Other depreciable capital assets				
Buildings and improvements	1,432,145	-	-	1,432,145
Total capital assets being depreciated	1,432,145	-	-	1,432,145
Less accumulated depreciation for:				
Buildings and improvements	256,288	28,643	-	284,931
Total accumulated depreciation	256,288	28,643	-	284,931
Total capital assets being depreciated, net	1,175,857	(28,643)	-	1,147,214
Total capital assets, net	<u>\$ 1,871,787</u>	<u>\$ (28,643)</u>	<u>\$ -</u>	<u>\$ 1,843,144</u>

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

4 CAPITAL ASSETS - Continued

Capital asset activity for the year ended June 30, 2011 was as follows:

	6/30/2010	Additions	Deletions	6/30/2011
Capital assets not being depreciated:				
Land	\$ 695,930	\$ -	\$ -	\$ 695,930
Other depreciable capital assets				
Buildings and improvements	1,432,145	-	-	1,432,145
Total capital assets being depreciated	1,432,145	-	-	1,432,145
Less accumulated depreciation for:				
Buildings and improvements	227,645	28,643	-	256,288
Total accumulated depreciation	227,645	28,643	-	256,288
Total capital assets being depreciated, net	1,204,500	(28,643)	-	1,175,857
Total capital assets, net	<u>\$ 1,900,430</u>	<u>\$ (28,643)</u>	<u>\$ -</u>	<u>\$ 1,871,787</u>

5 LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts due within one year
Demand mortgage note	\$1,387,238	\$ -	\$ -	\$ 1,387,238	\$ 1,387,238
Annuities payable	1,009,731	-	707,844	301,887	41,875
Due to others	6,281,523	1,372,845	1,114,912	6,539,456	-
Total long-term liabilities	<u>\$8,678,492</u>	<u>\$ 1,372,845</u>	<u>\$ 1,822,755</u>	<u>\$ 8,228,581</u>	<u>\$ 1,429,113</u>
	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts due within one year
Demand mortgage note	\$1,437,238	\$ -	\$ 50,000	\$ 1,387,238	\$ 1,387,238
Annuities payable	994,064	37,916	22,249	1,009,731	217,769
Due to others	5,679,962	1,486,117	884,556	6,281,523	-
Total long-term liabilities	<u>\$8,111,264</u>	<u>\$ 1,524,033</u>	<u>\$ 956,805</u>	<u>\$ 8,678,492</u>	<u>\$ 1,605,007</u>

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

5 LONG-TERM LIABILITIES - Continued

A bank demand mortgage note payable to a local bank was incurred for the purchase of land and construction of the Foundation center, known as the Neal Welcome Center. The building, as well as two unitrust gifts were pledged as collateral on this note. The two unitrust gifts matured on April 12, 2012. The Foundation is waiting on legal counsel to approve distribution of the assets. The Foundation's share of those unitrusts are currently estimated to be \$1,352,301. Accrued interest is payable on demand, but if no demand is made, then on the 10th day of each month. At June 30, 2012 and 2011, the interest rate on this note was 5.25%. The principal is payable on demand, but if no demand is made, then on August 5, 2014.

Maturity Information

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

Fiscal Year	Principal	Interest	Total Payments
2013	\$ -	\$ 72,830	\$ 72,830
2014	-	72,830	72,830
2015	1,387,238	7,183	1,394,421
Totals	\$ 1,387,238	\$ 152,843	\$ 1,540,081

6 SIGNIFICANT TRANSACTIONS WITH THE PRIMARY GOVERNMENT

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

During the years ended June 30, 2012 and 2011, the University provided cash, services and other resources to the Foundation totaling \$221,236 and \$230,330, respectively, to help defray the Foundation's costs incurred under the contract. During the years ended June 30, 2012 and 2011, the Foundation incurred expenses of \$142,611 and \$151,705 under the contract, respectively.

During the years ended June 30, 2012 and 2011, the Foundation gave the University \$2,655,709 and \$1,466,003, respectively, 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 \$960,612 and \$809,851 during the years ended June 30, 2012 and 2011, respectively. Services and resources totaling \$80,016 and \$76,402 for the years ended June 30, 2012 and 2011, respectively, are included above, but not reflected in the financial statements. Also, the Foundation received \$35,359 and \$26,274 for the years ended June 30, 2012 and 2011, respectively, in gifts from the University's restricted gift accounts with the donor's consent and \$146,000 from a University grant account for June 30, 2011.

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

6 SIGNIFICANT TRANSACTIONS WITH THE PRIMARY GOVERNMENT - Continued

Pursuant to governmental accounting standards, the Foundation is required to recognize as revenue, and expense those on-behalf payments for fringe benefits made by the State of Illinois to the State Universities Retirement System for University employees who work at or support the Foundation. These payments (estimated at \$205,931 in 2012 and \$170,151 in 2011) are the amounts shown as Budget allocations from the University and Budget expended at the University in the Statements of Revenues, Expenses and Changes in Net Assets.

7 FUNDS HELD IN TRUST FOR OTHERS

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

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

The Foundation is the trustee of two unitrusts of which half of the remainder interest is to be distributed to other charitable organizations. Accordingly, one half of the remainder interest is included in the due to others classification on the Statement of Net Assets.

The assets of these trusts totaled \$6,539,456 for 2012 and \$6,281,523 for 2011. They are included in the cash and investment classifications within the financial statements. Also, the related liability of \$6,539,456 for 2012 and \$6,281,523 for 2011 are included in the due to others classification within the financial statements.

8 RISK MANAGEMENT

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

9 FUNCTIONAL CLASSIFICATION OF EXPENSES

Operating expenses by functional classification for the years ended June 30, 2012 and 2011, are summarized as follows:

	2012	2011
Institutional Support	\$ 1,049,830	\$ 1,093,577
Depreciation	28,643	28,643
	<u>\$ 1,078,473</u>	<u>\$ 1,122,220</u>

EASTERN ILLINOIS UNIVERSITY
FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

FOR THE YEARS ENDED JUNE 30, 2012 and 2011

10 COMMITMENTS

The Foundation has entered into investment agreements with Park Street Capital Private Equity Fund VII, L.P., Park Street NRF IV, Portfolio Advisors VI, Portfolio Advisors VII, Montauk, and Goldman Sachs Distressed Opportunities Fund IV to purchase an interest in their limited partnerships for \$1,000,000, \$500,000, \$1,250,000, \$750,000, \$750,000, and \$1,500,000 respectively. The Foundation was not required to invest the total commitment all at once. Instead, they are required to meet capital calls when the partnerships ask for additional capital to complete their original commitment. Below is a breakdown of the agreements as of June 30, 2012:

	Commitment	Capital Called Through June 30, 2012	Distributed Capital Deemed Recallable	Remaining Commitment June 30, 2012
Park Street VII	\$1,000,000	\$ (887,500)	\$ -	\$ 112,500
Park Street NRF IV	500,000	(293,750)	-	206,250
Portfolio Advisors VI	1,250,000	(522,478)	-	727,522
Portfolio Advisors VII	750,000	(123,517)	-	626,483
Montauk	750,000	(75,000)	-	675,000
Goldman Sachs	1,500,000	(737,122)	94,415	857,293
Total	\$5,750,000	\$(2,639,367)	\$ 94,415	\$ 3,205,048