





**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
Champaign, Illinois**

**FINANCIAL AUDIT
For the Years Ended June 30, 2007 and 2006**

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



**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
FINANCIAL AUDIT
For the Years Ended June 30, 2007 and 2006**

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**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
COMPANY OFFICIALS
June 30, 2007**

Chair of Board	Edward L. McMillan
Vice Chair	Patrick F. Daly
Treasurer (thru 2/1/07)	Stephen K. Rugg
Treasurer (2/1/07 thru current)	Walter Knorr
Secretary	Thomas R. Bearrows
Director (thru 12/31/06)	David L. Chicoine
Interim Director (1/16/07 thru current)	James A. Weyhenmeyer
Manager, Research Park & Incubator Facilities	Scott Pickard

Board of Managers:

Patrick F. Daly	Dr. Kenneth Schmidt
Eric A. Gislason	Charles F. Zukoski
Edward L. McMillan	

The University of Illinois Research Park, LLC office is located at:

University of Illinois Research Park
60 Hazelwood, MC-659
Champaign, Illinois

FINANCIAL STATEMENT REPORT

SUMMARY

The audits of the accompanying financial statements of University of Illinois Research Park, LLC were performed by Clifton Gunderson LLP.

Based on their audits, the auditors expressed an unqualified opinion on the University of Illinois Research Park, LLC's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified a matter involving the Research Park's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on page 20 of this report, as finding 07-1, Inaccurate Statement of Cash Flows.

EXIT CONFERENCE

The University of Illinois Research Park, LLC waived holding an exit conference in an e-mail dated October 9, 2007.

The response to the recommendation was provided by Daniel Dobell in an e-mail dated October 15, 2007.

Independent Auditors' Report

The Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Managers
University of Illinois
Research Park, LLC

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of University of Illinois Research Park, LLC, a component unit of the University of Illinois, and a component unit of the State of Illinois as of June 30, 2007 and June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Company'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 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 University of Illinois Research Park, LLC as of June 30, 2007 and June 30, 2006, and the respective 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 a report dated October 11, 2007 on our consideration of the University of Illinois Research Park, LLC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 5 through 8 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.

Clifton Gunderson LLP

Peoria, Illinois
October 11, 2007

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

(Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the University of Illinois Research Park, LLC for the year ended June 30, 2007, with selected comparative information for the years ended June 30, 2006 and June 30, 2005. This discussion has been prepared by the management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. These include the Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows.

By agreement with the Board of Trustees of the University of Illinois (University), the University of Illinois Research Park, LLC (Research Park) exists for the primary purpose of aiding and assisting the University of Illinois in establishing and operating a research park in support of the University's teaching, research, public service, and economic development activities.

USING THE FINANCIAL STATEMENTS

The Research Park's financial report includes three financial statements: Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows. These statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

The Statements of Net Assets are presented to show the assets, liabilities, and net assets as of June 30, 2007 and June 30, 2006. Following the Statements of Net Assets are the Statements of Revenues, Expenses, and Changes in Net Assets which provide operational information for the Research Park. The Statements of Cash Flows provide details on how cash was used during the two years.

FINANCIAL HIGHLIGHTS

The Research Park experienced an increase in net assets of \$402,300 from June 30, 2006 to June 30, 2007 compared to an increase of \$4,968 from June 30, 2005 to June 30, 2006. The main factors contributing to the increase over last fiscal year are the changes in service income, rental income and budget allocation – University of Illinois. The Research Park invoiced the University \$456,506 in fiscal 2007 for services rendered and to be rendered on behalf of the University by the Research Park of which \$392,360 was recognized as service income by the Research Park; the remaining \$64,146 was deferred.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

(Unaudited)

FINANCIAL HIGHLIGHTS (CONTINUED)

The Statements of Net Assets indicate an increase in current assets of \$63,707 from June 30, 2006 to June 30, 2007 and an increase of \$15 from June 30, 2005 to June 30, 2006. The change from fiscal year 2006 to fiscal year 2007 is primarily due to the recognition of deferred charges associated with telecommunications infrastructure projects paid for in the fiscal year ended June 30, 2007 expected to be incurred in fiscal year 2008.

The changes in capital assets are due to additions in the years ended June 30, 2007 and June 30, 2006. Total assets increased by \$166,022 between June 30, 2006 and 2007 and decreased by \$21,769 between June 30, 2005 and 2006. The increase of \$166,022 from June 30, 2006 to June 30, 2007 was due primarily to telecommunications installations for new Research Park buildings as well as increases in current assets. Current liabilities decreased by \$236,278 between June 30, 2006 and 2007 as a result of payments made by the Research Park to the University for amounts owed for leasehold improvements (extension of telecommunications network) incurred by the University on behalf of the Research Park (see note 6). The decrease in liabilities from June 30, 2005 to June 30, 2006 of \$26,737 was the result of adjustments to the amount owed to the University for leasehold improvements incurred by the University on behalf of the Research Park.

Summary Statements of Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current assets	\$ 86,863	\$ 23,156	\$ 23,141
Capital assets	720,175	669,567	726,650
Lease receivable	<u>173,054</u>	<u>121,347</u>	<u>86,048</u>
Total assets	<u>\$ 980,092</u>	<u>\$ 814,070</u>	<u>\$ 835,839</u>
Current liabilities	<u>\$ 116,269</u>	<u>\$ 352,547</u>	<u>\$ 379,284</u>
Net assets:			
Invested in capital assets, net of related debt	720,175	368,540	384,911
Unrestricted	<u>143,648</u>	<u>92,983</u>	<u>71,644</u>
Total net assets	<u>863,823</u>	<u>461,523</u>	<u>456,555</u>
Total liabilities and net assets	<u>\$ 980,092</u>	<u>\$ 814,070</u>	<u>\$ 835,839</u>

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

(Unaudited)

FINANCIAL HIGHLIGHTS (CONTINUED)

**Selected Items from Statements of Revenues, Expenses,
and Changes in Net Assets**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues:			
Budget allocation - University of Illinois	\$ 309,312	\$ 158,332	\$ -
Service income	392,360	103,165	251,544
Rental income	<u>158,033</u>	<u>106,313</u>	<u>59,236</u>
Total operating revenues	<u>859,705</u>	<u>367,810</u>	<u>310,780</u>
Operating expenses:			
Salaries	101,511	115,569	300
Advertising	26,074	-	-
Depreciation	28,304	29,270	19,964
Legal fees	37,640	37,240	-
Office supplies	1,500	-	237
Office	-	61	107
Professional fees	65,770	54,822	32,851
Rent	6,712	5,523	-
Services under 13 th Amendment to Development Agreement	41,274	-	-
Subscriptions/dues/luncheons	1,832	-	1,477
Support for Enterprise Works	19,847	30,000	1,387
Support for Office of Vice Chancellor for Research	106,326	71,014	60,578
Telecommunications	1,200	-	457
Travel	2,252	-	-
Other	<u>17,229</u>	<u>19,362</u>	<u>17,924</u>
Total operating expenses	<u>457,471</u>	<u>362,861</u>	<u>135,282</u>
Operating income	402,234	4,949	175,498
Nonoperating revenue (loss)			
Interest	66	19	30
Loss on lease cancellation	<u>-</u>	<u>-</u>	<u>(67,385)</u>
Increase in net assets	<u>\$ 402,300</u>	<u>\$ 4,968</u>	<u>\$ 108,143</u>

Service income is revenue provided by the University to the Research Park in return for managing the research park at the Urbana-Champaign Campus. The amount of funding provided is dependent on the needs of the Research Park. Budget allocation includes a pro-rata share of services and facilities provided by the University to the Research Park. These allocations are reflected in the expenditures section.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

(Unaudited)

FINANCIAL HIGHLIGHTS (CONTINUED)

The budget allocation increased by \$150,980 from June 30, 2006 to June 30, 2007. This is primarily due to the addition of University resources and improved tracking of services provided to the Research Park that had not been recognized in past years. Service income increased by \$289,195 from June 30, 2006 to June 30, 2007 as a result of the Research Park invoicing the University for services rendered. This is the first time the Research Park has formally requested reimbursement from the University. Increases in expenditures associated with budget allocations from June 30, 2006 to June 30, 2007 are the result of improved expense recognition in accordance with the rules described in the University Guidelines of 1982 as amended in 1997.

	<u>2007</u>	<u>2006</u>
Budget allocation – University of Illinois		
Development Agreement Payments made	\$ 26,274	\$ -
Funding from the University	40,779	-
University Services Provided	136,036	37,240
Salaries Provided	98,011	115,569
Rent	6,712	5,523
Other University Resources Provided	1,500	-
	<u>\$ 309,312</u>	<u>\$ 158,332</u>

One new tract of land was leased to the exclusive developer for construction of a new day care facility during fiscal year ended June 30, 2007. Support for the Office of the Vice Chancellor for Research in the fiscal year ended June 30, 2007 of \$106,326 came from land lease payments from leasing activities conducted by the Research Park. In addition, \$19,847 of support for Enterprise Works was used to purchase shared laboratory equipment.

Summarized cash flows include:

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating activities	\$ 379,434	\$ 12,895
Cash Flows from Capital and Related Financing Activities	(379,939)	(12,899)
Cash Flows from Investing Activities	66	19
Increase (Decrease) in Cash	<u>\$ (439)</u>	<u>\$ 15</u>

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

At the September 17, 2007 meeting of the Research Park Board of Managers, 6.5 acres of land in the “additional project area” was designated as Phase IV.2.a of the Research Park. It is anticipated that a new multi-tenant facility will begin construction on this land in calendar year 2008, and will contribute additional land lease revenues to the UIRP LLC. Additional revenues are also expected to be generated through rent and revenue sharing components of the land lease executed on January 25, 2006 for the purpose of constructing a hotel and restaurant on the southeast corner of St. Mary’s and First Street. Payment of rent associated with this agreement is waived through July 1, 2009.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
STATEMENTS OF NET ASSETS
June 30, 2007 and 2006**

ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash	\$ 2,717	\$ 3,156
Accounts receivable	20,000	20,000
Deferred charges	<u>64,146</u>	<u>-</u>
Total current assets	<u>86,863</u>	<u>23,156</u>
 CAPITAL ASSETS	 <u>720,175</u>	 <u>669,567</u>
 LEASE RECEIVABLE	 <u>173,054</u>	 <u>121,347</u>
 TOTAL ASSETS	 <u>\$ 980,092</u>	 <u>\$ 814,070</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 52,123	\$ 352,547
Deferred revenue	<u>64,146</u>	<u>-</u>
Total current liabilities	<u>116,269</u>	<u>352,547</u>
 NET ASSETS		
Invested in capital assets, net of related debt	720,175	368,540
Unrestricted	<u>143,648</u>	<u>92,983</u>
Total net assets	<u>863,823</u>	<u>461,523</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 980,092</u>	 <u>\$ 814,070</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Budget allocation - University of Illinois	\$ 309,312	\$ 158,332
Service income	392,360	103,165
Rental income	<u>158,033</u>	<u>106,313</u>
Total operating revenues	<u>859,705</u>	<u>367,810</u>
OPERATING EXPENSES		
Salaries	101,511	115,569
Advertising	26,074	-
Depreciation	28,304	29,270
Legal fees	37,640	37,240
Office supplies	1,500	-
Office	-	61
Professional fees	65,770	54,822
Rent	6,712	5,523
Services under 13th Amendment to Development Agreement	41,274	-
Subscriptions/dues/luncheons	1,832	-
Support for Enterprise Works	19,847	30,000
Support for Office of Vice Chancellor for Research	106,326	71,014
Telecommunications	1,200	-
Travel	2,252	-
Other	<u>17,229</u>	<u>19,362</u>
Total operating expenses	<u>457,471</u>	<u>362,861</u>
Operating income	402,234	4,949
NONOPERATING REVENUE		
Interest	<u>66</u>	<u>19</u>
INCREASE IN NET ASSETS	402,300	4,968
NET ASSETS, BEGINNING OF YEAR	<u>461,523</u>	<u>456,555</u>
NET ASSETS, END OF YEAR	<u>\$ 863,823</u>	<u>\$ 461,523</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Service income	\$ 456,506	\$ 44,471
Payments to suppliers	<u>(77,072)</u>	<u>(31,576)</u>
Net cash provided by operating activities	<u>379,434</u>	<u>12,895</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	<u>(379,939)</u>	<u>(12,899)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>66</u>	<u>19</u>
 INCREASE (DECREASE) IN CASH	(439)	15
 CASH, BEGINNING OF YEAR	<u>3,156</u>	<u>3,141</u>
 CASH, END OF YEAR	<u>\$ 2,717</u>	<u>\$ 3,156</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 402,234	\$ 4,949
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	28,304	29,270
Effects of changes in operating assets and liabilities:		
Lease receivable	(51,707)	(35,299)
Accounts payable	<u>603</u>	<u>13,975</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 379,434</u>	<u>\$ 12,895</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES**

Nature of Operations

The University of Illinois Research Park, LLC (Research Park) was organized March 15, 2000 as an Illinois Limited Liability Company with offices located in Champaign, Illinois. The Research Park was organized by, and is a component unit of, the University of Illinois. The sole member of the Research Park is the Board of Trustees of the University of Illinois (University), a body corporate and politic of the State of Illinois. To the extent provided by the Illinois Limited Liability Company Act, the member's liability is limited.

The purpose of the Research Park is to develop and operate a research park to encourage and facilitate research and development and to foster economic growth within the State using the University's intellectual assets.

On September 11, 2003, the Board of Trustees of the University of Illinois approved certain amendments to the Operating Agreement (bylaws) of the University of Illinois Research Park, LLC and the Services and Management Agreement between the University and the Research Park. The effect of the changes to the two agreements is to broaden the jurisdiction of the Research Park to oversight of the research parks at the Urbana campus, the Chicago campus, and other research parks in Illinois where the University has some operating responsibility by statute or contract.

Services are primarily provided in Central Illinois. The Research Park extends unsecured credit to its customers.

Basis of Presentation

The Research Park prepared its financial statements as a business-type activity, as defined by GASB Statement No. 34, using the economic resources measurement focus and the accrual basis of accounting. Business-type activities are those financed in whole, or in part, by fees charged to external parties for goods and services. Pursuant to GASB Statement No. 20, Research Park has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements. The Research Park has elected not to follow subsequent private sector guidance.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

The Research Park's leasehold improvements are recorded at cost and are depreciated on the straight-line method over their estimated useful lives of twenty-five years. Office equipment is depreciated on the straight-line method over the estimated useful life of each asset, which ranges from five to seven years.

Income Taxes

Research Park's sole member has elected to have the Research Park's income taxed as a limited liability company under the provisions of the Internal Revenue Code and a similar section of the Illinois income tax law; therefore, taxable income or loss is reported to the sole member for inclusion on its tax return. No provision for federal or state income taxes is included in these statements.

Revenue Recognition

Revenue is recognized as services are provided. Operating revenues result from services and rentals rendered. Nonoperating revenue consists of interest income and capital contributions.

NOTE 2 - DEPOSITS

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Research Park does not have a formal policy for interest rate risk. All of the Research Park's deposits are in either a commercial checking account or a bank money market account, which are not subject to maturity and therefore do not have interest rate risk.

Credit Risk. Credit risk is the risk that an issuer or their counterparty to an investment will not fulfill its obligations. The Research Park does not have a formal policy for credit risk. All of the Research Park's deposits are in either a commercial checking account or a bank money market account.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Research Park's deposits may not be returned. The Research Park does not have a formal policy for custodial deposit risk. As of June 30th all deposits were fully insured by the Federal Deposit Insurance Corporation (FDIC).

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE 3 - DEVELOPMENT AGREEMENT AND LEASE RECEIVABLE

The Research Park has entered into an agreement dated May 3, 2000 with Fox/Atkins Development, LLC for the development of a research park on land specifically defined in the agreement and owned by the University of Illinois. For each tract of land developed under the basic agreement, a ground lease will be entered into. The terms of the ground leases are 50 years from the commencement date of the individual leases. The basic annual rent for the land is \$5,000 per acre with a waiver of any lease payments due prior to July 1, 2003. The leases will be adjusted every five years based on increases in the consumer price index over the prior five-year period. The increase due to changes in the consumer price index is limited to 12 percent each adjustment period. The rental income for the leases is being recognized on a straight-line basis over the entire terms of the leases using total minimum lease payments that will be received for each lease.

As of June 30, 2007, seven tracts have been leased under the terms of the development agreement.

Total rent receivable accrued under these leases as of June 30, 2007 and 2006 is \$173,054 and \$121,347, respectively.

Minimum future rentals to be received on these noncancelable leases as of June 30, 2007 are as follows:

2008	\$ 105,522
2009	105,522
2010	122,535
2011	139,547
2012	156,559
Later years	<u>7,325,493</u>
Total	<u>\$ 7,995,178</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2007 and 2006 was as follows:

	2007			
	Beginning Balance	Additions	Retirements	Ending Balance
Office equipment	\$ 48,313	\$ -	\$ -	\$ 48,313
Leasehold improvements	<u>723,466</u>	<u>78,912</u>	<u>-</u>	<u>802,378</u>
	<u>771,779</u>	<u>78,912</u>	<u>-</u>	<u>850,691</u>
Less accumulated depreciation:				
Office equipment	42,633	4,209	-	46,842
Leasehold improvements	<u>59,579</u>	<u>24,095</u>	<u>-</u>	<u>83,674</u>
	<u>102,212</u>	<u>28,304</u>	<u>-</u>	<u>130,516</u>
Net capital assets	<u>\$ 669,567</u>	<u>\$ 50,608</u>	<u>\$ -</u>	<u>\$ 720,175</u>

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	2006			Ending Balance
	Beginning Balance	Additions	Retirements	
Office equipment	\$ 48,313	\$ -	\$ -	\$ 48,313
Leasehold improvements	751,279	33,348	(61,161)	723,466
	<u>799,592</u>	<u>33,348</u>	<u>(61,161)</u>	<u>771,779</u>
Less accumulated depreciation:				
Office equipment	33,786	8,847	-	42,633
Leasehold improvements	39,156	20,423	-	59,579
	<u>72,942</u>	<u>29,270</u>	<u>-</u>	<u>102,212</u>
Net capital assets	<u>\$ 726,650</u>	<u>\$ 4,078</u>	<u>\$ (61,161)</u>	<u>\$ 669,567</u>

NOTE 5 - OPERATING LEASES

The Research Park offices are located in the EnterpriseWorks Building which the University of Illinois owns. There is currently no lease agreement for the space. Rental expense is recognized on the financial statements in the form of an operating expense.

The Research Park leases the ground for the development of a research park from the University of Illinois and then, in turn, leases to the developer. Under the terms of the lease agreements with the University of Illinois, the annual lease payment is \$10 per year for each tract. The term of the leases are 50 years. The Company has the option to extend the lease for an additional 25 years.

Future minimum lease payments under these leases are as follows:

2008	\$ 70
2009	70
2010	70
2011	70
2012	70
Later years (\$350 for each 5 year interval)	<u>2,930</u>
Total	<u>\$ 3,280</u>

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE 6 - RELATED PARTY TRANSACTIONS

The University provides support to the Research Park including salaries (staff are University employees), bookkeeping and accounting services, and certain administrative costs as provided in the operating and service agreement. For the years ended June 30, 2007 and 2006, the University provided support in the amount of \$309,312 and \$158,332, respectively, to the Research Park which has been recognized as budget allocation in the statements of revenues, expenses, and changes in net assets.

Also, the Research Park leases tracts of land from the University and subleases them to the Research Park developer and/or tenants of the Research Park.

The Research Park provided support for Enterprise Works, which is a part of the University of Illinois incubator program, of \$19,847 and \$30,000 in the years ended June 30, 2007 and 2006, respectively.

The Research Park provided support to the University of Illinois at Urbana-Champaign Office of Vice Chancellor of Research of \$106,326 and \$71,014 during the years ended June 30, 2007 and 2006, respectively.

As of June 30, 2006 the Research Park owed the University of Illinois at Urbana-Champaign facilities and services department \$301,027 for leasehold improvements that the University incurred on behalf of the Research Park.

NOTE 7 – MANAGEMENT FEES AND DEFERRED REVENUE

In response to recommendations from the Office of the Auditor General and the University of Illinois Office of Business and Financial Services, regarding the University Guidelines of 1982 as amended in 1997, the Research Park, LLC billed the University for management services a total of \$456,506 in the spring of 2007 for services rendered for the first time since inception. Such amounts were, in turn, used to pay campus departments for costs incurred in the extension of the telecommunications infrastructure to Research Park buildings. The deferred balance of \$64,146 represents deferred telecommunications infrastructure charges which have been paid for in advance by campus units and will be recognized in the fiscal year ended June 30, 2008.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE 8 – SIGNIFICANT NONCASH TRANSACTIONS

Significant noncash transactions were recognized on the financial statements for the fiscal years ended June 30, 2007 and June 30, 2006. These transactions are presented to formally recognize the goods and services provided by the University to operate the Research Park. A survey was completed for the fiscal year ended June 30, 2007 in coordination with the University of Illinois Office of Business and Financial Services in order to estimate the value of these resources. The University of Illinois provided the Research Park with non-cash support for wages, professional services, and facilities totaling \$309,312 for fiscal year 2007, and \$217,026 for fiscal year 2006. The rental income received from the Developer was deposited directly into a University of Illinois account.

NOTE 9 - COMMITMENTS

On February 14, 2006, the University of Illinois Research Park, LLC approved the 13th Amendment to the Development Agreement which calls for reimbursement of marketing services which go beyond the developer's marketing duties described in the development agreement. These payments are not to exceed \$250,000 in any fiscal year.

This information is an integral part of the accompanying financial statements.



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

Honorable William G. Holland
Auditor General
State of Illinois
and
The Board of Managers
University of Illinois
Research Park, LLC

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of University of Illinois Research Park, LLC as of and for the year ended June 30, 2007, and have issued our report thereon dated October 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University of Illinois Research Park, LLC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the University of Illinois Research Park, LLC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University of Illinois Research Park, LLC's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting, shown as finding 07-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University of Illinois Research Park, LLC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The University of Illinois Research Park, LLC's response to the finding identified in our audit are described in the accompanying schedule of findings. We did not audit the University of Illinois Research Park, LLC's response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Clifford Henderson LLP". The signature is written in a cursive, flowing style.

Peoria, Illinois
October 11, 2007

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
SCHEDULE OF FINDINGS
Current Findings – *Government Auditing Standards*
June 30, 2007**

07-01 - Finding: Inaccurate Statement of Cash Flows

The University of Illinois Research Park, LLC (Research Park) did not prepare an accurate Statement of Cash Flows.

During our review of the Statement of Cash Flows we noted that the statement was prepared using the indirect method and contained inaccuracies in the preparation of the Statement. These inaccuracies were brought to the attention of Research Park personnel so they could be corrected. The Research Park was able to correct the Statement with our assistance.

Generally accepted accounting principles (GAAP) for governmental entities are promulgated by the Governmental Accounting Standards Board (GASB). GASB 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* requires the Research Park to present a Statement of Cash Flows using the direct method.

Research Park management stated that they did not have experience with preparing the statement of cash flows using the direct method.

Failure to prepare an accurate Statement of Cash Flows prevents the Research Park from preparing financial statements in accordance with accounting principles generally accepted in the United States of America. (Finding Code No. 07-1)

Recommendation:

We recommend the Research Park prepare an accurate Statement of Cash Flows in accordance with accounting principles generally accepted in the United States of America.

Research Park Response:

Research Park agrees with the finding regarding the improper preparation of the FY07 cash flow statement. At the end of future fiscal years, Research Park will allow University financial reporting staff to review the cash flow statement for accuracy and method prior to final submission to the external auditors.