



Crowe Chizek and Company LLC
Member Horwath International

STATE OF ILLINOIS

**SOUTHERN ILLINOIS
RESEARCH PARK, INC.**

**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT AUDITORS**

June 30, 2007

(With comparative totals for 2006)

Performed as special assistant auditors for the
Auditor General, State of Illinois

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.

FINANCIAL STATEMENTS
June 30, 2007

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STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
JUNE 30, 2007

AGENCY OFFICIALS

June 30, 2007

Mr. Kyle Harfst Interim Executive Director

Offices are located at:

Dunn-Richmond Center
150 E. Pleasant Hill Road
Carbondale, Illinois 62901

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
JUNE 30, 2007

FINANCIAL STATEMENT REPORT
SUMMARY

The audit of the accompanying basic financial statements of Southern Illinois Research Park, Inc. was performed by Crowe Chizek and Company LLC.

Based on their audit, the auditors expressed an unqualified opinion of the Research Park's financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Research Park's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompany Schedule of Findings on pages 20-22 of this report, as finding 07-1 (Fraud Prevention and Detection Program) and finding 07-2 (Internal Control over Receipts and Expenses Cut-off).

EXIT CONFERENCE

Southern Illinois Research Park waived an exit conference.

The responses to the recommendations were provided by Kyle Harfst in a letter dated December 5, 2007.



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Honorable William G. Holland
Auditor General, State of Illinois
And The Board of Directors
Southern Illinois Research Park, Inc.

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Southern Illinois Research Park, Inc. (SIRP), a component unit of Southern Illinois University, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of SIRP's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from SIRP's 2006 financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Illinois Research Park, Inc. as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2008, on our consideration of SIRP'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 read in conjunction with this report in considering the results of our audit.

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 State 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.


Crowe Chizek and Company LLC

Chicago, Illinois
January 11, 2008

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2007
(With comparative data for 2006)

The purpose of this analysis is to provide an objective and easy-to-read analysis of the Southern Illinois Research Park's (SIRP) financial activities based on currently known facts, decisions, and/or conditions. The attached Statement of Net Assets; Statement of Revenue, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to Financial Statements are required by GASB (Governmental Accounting Standards Board) 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*. The SIRP has elected to show comparable figures for the prior year. All comments are directed toward fiscal year 2007 activities unless otherwise noted.

Statements:

This Southern Illinois Research Park was incorporated in 2001. This is the fifth audit of the financial statements of the Southern Illinois Research Park. The amounts presented for the fiscal year 2007 are audited.

These statements are presented in a "business-type activities" format which is a change from a "funds-group" format. The business-type activities format was developed to provide the reader with statements which could better indicate the available economic resources of the entity.

In order to understand the changes in the statements, below is a brief description of each statement. It may help you understand them better if you review the statements as you read the descriptions. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets have been provided for reference. See Tables A-1 and A-2 below.

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (UNAUDITED)

June 30, 2007
(with comparative data for 2006)

Condensed

Table A-1

Southern Illinois Research Park, Inc.

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Percentage Change</u>
Cash & Equivalents	\$55,262	\$60,358	8.44%
Deposits with SIU	101,749	30,042	238.69%
Grants Receivable	-	31,282	-100.00%
Prepaid Insurance	1,791	1,106	61.93%
Capital Assets	<u>266,481</u>	<u>278,618</u>	<u>-4.36%</u>
Total assets	425,283	401,406	5.95%
Due to SIU	-	31,940	-100%
Deferred revenue	28,731	-	100%
Accounts Payable	<u>6,926</u>	<u>9,237</u>	<u>-25.02%</u>
Total liabilities	35,657	41,177	-13.41%
Invested in Capital Assets	266,481	278,618	-4.36%
Unrestricted	<u>123,145</u>	<u>81,611</u>	<u>50.89%</u>
Total net assets	<u>\$389,626</u>	<u>\$360,229</u>	<u>8.16%</u>

The Statement of Net Assets, indicates assets available for current use (current assets) and those assets to be held (noncurrent assets). This statement also indicates which liabilities are due within one year (current liabilities) and those due in a year or more (noncurrent liabilities). Net Assets, located at the bottom of the statement, are grouped by those assets available for unrestricted uses and those assets which are an investment in capital assets. During this period, the SIRP had an increase in net assets of \$29,397 as indicated on the Statement of Revenue, Expenses, and Changes in Net Assets.

There is an increase in cash and deposits with SIU because of increased revenues received from tenants located in One Enterprise Place. Five tenants are currently located in this building, completed in January of 2006. While the University owns the building, Southern Illinois Research Park pays rent to the University for the building. In turn, Southern Illinois Research Park (SIRP) collects rent from tenants. There was a decrease in grant receivables that was set up to reimburse the SIRP for the expenditures of the leasehold improvements. Construction-in-progress for leasehold improvements outside of One Enterprise Place was completed this fiscal year. As construction-in-progress is completed, both federal grants received for construction have been spent. The net balance of capital assets has decreased due to depreciation. There was a decrease in Accounts Payable in part, due to satisfaction of construction activity.

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (UNAUDITED)

June 30, 2007
(with comparative data for 2006)
Condensed

Table A-2
Revenue, Expenses, and Changes in Net Assets

REVENUE	<u>June 30, 2007</u>	<u>June 30, 2006</u>	Percentage <u>Change</u>
Rental Income	\$210,863	\$56,665	272.12%
Budget allocation from SIU	46,003	54,688	-15.88%
Grant income	18,718	212,326	-91.18%
Investment income	2,910	1,169	148.93%
Total revenue	<u>278,494</u>	<u>324,848</u>	<u>-14.27%</u>
EXPENSES			
Budget expended at SIU	46,003	54,688	-15.88%
General and operating expenses	173,474	40,228	331.23%
Depreciation	29,620	14,664	101.99%
Bad Debt	0	13,659	-100.00%
Total expenses	<u>249,097</u>	<u>123,239</u>	<u>102.13%</u>
Increase in net assets	<u>\$29,397</u>	<u>\$201,609</u>	<u>-85.42%</u>

The Statement of Revenue, Expenses, and Changes in Net Assets indicate the activity for the period and its net effect on net assets. The activity from operations is shown first. As stated in the Notes to the Financial Statements, Operating Revenue includes activities that have the characteristics of exchange transactions. In an exchange transaction both parties receive a material benefit from the transaction, such as the SIRP receiving contract payments from Southern Illinois University. Nonoperating Revenue (Expenses) is listed after operating activities. Nonoperating Revenue includes activities that have the characteristics of nonexchange transactions. Nonoperating revenue is defined in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as investment revenues and capital expenditures. Other Revenue, Expenses, Gains and Losses are the last grouping of transactions. This grouping includes contributions received for capital assets (such as equipment and buildings) as required by GASB Statement No. 34. Since the primary purpose of the SIRP is to raise contributions for the benefit of Southern Illinois University, and most of this activity is located after Operating Income (Loss), Net Increase (Decrease) In Net Assets may be a better indicator of the SIRP's core activity.

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (UNAUDITED)

June 30, 2007

The increase in revenue is mainly attributable to revenues received from tenants located in One Enterprise Place. The building is now 100% occupied and leases have been executed. Grant income represents the amount received from the Delta Regional Authority for the leasehold improvements external to One Enterprise Place. The Payments from SIU as well as Budget expended at SIU are both allocable to the recognition of the salary expenses paid by the university on behalf of the SIRP. General and operating expenses had a substantial increase due to occupancy of One Enterprise Place.

The Statement of Cash Flows' primary purpose is to provide relevant information about the cash receipts and cash payments of the SIRP during the period. The SIRP is required to use the direct method presentation for this statement which indicates the cash effects categorized by operations, noncapital financing transactions, capital and related financing transactions, and investing transactions. During the period, the SIRP had a net inflow of cash from investing activities of \$2,910.

Facts, Decisions or Conditions Affecting the Financial Position:

During fiscal year 2007, there was an overall increase in net assets in the amount of \$29,397. During fiscal year 2006, there was an increase in net assets in the amount of \$201,609 specifically attributable to the leasehold improvements related to One Enterprise Place.

Construction is completed on the 20,000 square foot multi-tenant building owned by Southern Illinois University dedicated to SIRP activities. SIRP executed the ground lease in FY2005 in order to receive federal grant money for the leasehold improvements. The building was completed in 2007 and has executed leases for five tenants.

There are no other facts, decisions, or conditions significantly affecting the net assets, other than those explained in the previous section of this discussion and analysis. However, please see the notes to the basic financial statements that include additional details and further explanations of data presented in the basic financial statements. The notes are an integral part of the basic financial statements and should be included as part of any review or analysis.

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
STATEMENTS OF NET ASSETS
June 30, 2007
(With comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash (Note 3)	\$ 55,262	\$ 60,358
Deposits with SIU (Note 5)	101,749	30,042
Grants receivable (Note 6)	-	31,282
Prepaid insurance	<u>1,791</u>	<u>1,106</u>
Total current assets	158,802	122,788
Noncurrent assets		
Capital assets, net (Note 4)		
Leasehold improvements	<u>266,481</u>	<u>278,618</u>
Total assets	<u>425,283</u>	<u>401,406</u>
LIABILITIES		
Current liabilities		
Due to SIU (Note 5)	-	31,940
Accounts payable	6,926	9,237
Deferred revenue (Note 8)	<u>28,731</u>	<u>-</u>
Total current liabilities	<u>35,657</u>	<u>41,177</u>
NET ASSETS		
Invested in capital assets	266,481	278,618
Unrestricted	<u>123,145</u>	<u>81,611</u>
Total net assets	<u>\$ 389,626</u>	<u>\$ 360,229</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
Years ended June 30, 2007
(With comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
REVENUE		
Operating revenue		
Rental income	\$ 210,863	\$ 56,665
Budget allocation from SIU (Note 5)	<u>46,003</u>	<u>54,688</u>
Total operating revenue	256,866	111,353
EXPENSES		
Operating expenses		
Budget expended at SIU (Note 5)	46,003	54,688
General and operating	173,474	40,228
Depreciation (Note 4)	- 29,620	14,664
Bad debt	<u>-</u>	<u>13,659</u>
Total operating expenses	<u>249,097</u>	<u>123,239</u>
Operating expenses in excess of revenue	7,769	(11,886)
NONOPERATING REVENUE		
Interest income (Note 3)	2,910	1,169
Grant income (Note 6)	<u>18,718</u>	<u>212,326</u>
Total nonoperating revenue	<u>21,628</u>	<u>213,495</u>
Increase in net assets	29,397	201,609
NET ASSETS		
Net assets at beginning of year	<u>360,229</u>	<u>158,620</u>
Net assets at end of year	<u>\$ 389,626</u>	<u>\$ 360,229</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2007
(With comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Rental income	\$ 139,156	\$ 26,623
General and operating expenses	<u>(179,679)</u>	<u>(61,380)</u>
Net cash used in operating activities	(40,523)	(34,757)
 Cash flows provided by noncapital financing activities		
Grant income	<u>50,000</u>	<u>233,000</u>
 Cash flows used in capital financing activities		
Leasehold improvement expenditures	<u>(17,483)</u>	<u>(212,326)</u>
 Cash flows provided by investing activities		
Interest and dividend income	<u>2,910</u>	<u>1,169</u>
 Net decrease in cash	(5,096)	(12,914)
 Cash at beginning of year	<u>60,358</u>	<u>73,272</u>
 Cash at end of year	<u>\$ 55,262</u>	<u>\$ 60,358</u>
 Reconciliation of operating expenses in excess of revenue to net cash used in operating activities		
Operating revenue in excess of expense	\$ 7,769	\$ (11,886)
Depreciation expense	29,620	14,664
Changes in		
Due from SIU	(71,707)	(16,383)
Prepaid insurance	(685)	(1,106)
Deferred revenue	28,731	-
Due to SIU	(31,940)	31,940
Accounts payable	<u>(2,311)</u>	<u>(51,986)</u>
 Net cash provided by (used in) operating activities	<u>\$ (40,523)</u>	<u>\$ (34,757)</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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

Financial Reporting Entity: Southern Illinois Research Park, Inc. (SIRP) located in Carbondale, Illinois exists for the primary purpose of aiding and assisting Southern Illinois University (SIU or the University) in achieving its educational, research, and service goals and responsibilities.

Due to the significance of the financial relationship with the University, SIRP is included as a component unit of the University for financial reporting purposes in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The State of Illinois stated that SIRP should be included as a component unit of the University for financial reporting purposes and report under GASB on a stand-alone basis. The financial activities included in these financial statements are reported in a separate column in the University's financial statements to emphasize that SIRP is an Illinois not-for-profit organization legally separate from the University.

These financial statements include all financial activities over which SIRP exercises direct responsibility.

Financial Statement Presentation: SIRP follows GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required by GASB Statement Nos. 35, 37, and 38 provides a comprehensive perspective of SIRP's assets, liabilities, net assets, revenue, expenses, changes in net assets and cash flows.

Basis of Accounting: For financial reporting purposes, SIRP is considered a special-purpose government engaged only in business-type activities. Accordingly, SIRP's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

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

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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

Cash Equivalents: For purposes of the statements of cash flows, SIRP considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Net Assets: SIRP's net assets are classified as follows:

- **Invested in capital assets:** This represents SIRP's total investment in capital assets, net of accumulated amortization.
- **Unrestricted net assets:** Unrestricted net assets represent resources used for transactions relating to the educational and general operations of SIRP, 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, SIRP's policy is to first apply the expense toward restricted resources, and then toward unrestricted resources.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts.

Amortization is computed using the straight-line method over the estimated useful lives of the assets, generally 10 years or the life of the lease (whichever is less) for leasehold improvements.

Classification of Revenue and Expenses: SIRP has classified its revenue and expenses as either operating or nonoperating according to the following criteria:

- **Operating:** Operating revenue and expenses include activities that have the characteristics of exchange transactions, such as contract payments from Southern Illinois University and rental income from SIRP tenants.
- **Nonoperating:** Nonoperating revenue and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenue by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, such as investment income.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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

Comparative Data: Comparative totals for the prior year have been presented in the accompanying financial statements to facilitate an understanding of the changes in the SIRP's financial position and its revenue, expenses and net assets between years. The 2006 information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with SIRP's financial statements for the year ended June 30, 2006, from which the summarized financial information was derived.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts reported therein and the disclosures provided. Actual results may differ from these estimates.

NOTE 2 - TAX STATUS

The Internal Revenue Service has issued a determination letter, dated July 19, 2001, indicating that SIRP qualifies for federal income tax exemption under Section 501(c)(3) of the Internal Revenue Code, except for income taxes associated with unrelated business income. No provision has been made as management does not believe it has significant unrelated business income.

NOTE 3 - CASH

At June 30, 2007, the carrying amount of SIRP's deposits with financial institutions was \$55,262, and the bank balance was \$55,262.

During fiscal year 2007, SIRP recognized \$2,910 in interest income.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, SIRP's deposits may not be returned to it. SIRP does have a policy to require banks to collateralize balances over the Federal Deposit Insurance Corporation (FDIC) insured amount. As of June 30, 2007, the entire amount of funds held at the bank was insured by the FDIC.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 4 - CAPITAL ASSETS

Capital assets consist of the following:

	Balance June 30, 2006	Additions	Retirement	Balance June 30, 2007
Parking lot/sidewalk	\$ 254,939	\$ 17,483	\$ -	\$ 272,422
Lighting	29,872	-	-	29,872
Signage	8,471	-	-	8,471
Less accumulated depreciation	14,664	29,620	-	44,284
	<u>\$ 278,618</u>	<u>\$ (12,137)</u>	<u>\$ -</u>	<u>\$ 266,481</u>

These leasehold improvements relate to the multi-purpose building and are funded through federal reimbursement-based grants.

Depreciation expense was \$29,620 for the year ended June 30, 2007.

NOTE 5 - TRANSACTIONS WITH RELATED PARTIES

SIRP has entered into a master contract with the Board of Trustees of SIU which specifies the relationship between the two organizations in accordance with the Legislative Audit Commission's University Guidelines, 1982 and amended in 1997. Among the provisions of the contract is a requirement that SIRP and SIU will provide services to each other. SIU provided marketing, education, and related services on behalf of SIRP during the year.

Pursuant to governmental accounting standards, SIRP is required to recognize as revenue and expense those on-behalf payments for salaries and fringe benefits made by the University for personnel at SIRP. This amount, which is reflected as budget allocation from SIU and budget expended at SIU in the accompanying statements of revenue, expenses and changes in net assets, totaled \$46,003 for the year ended June 30, 2007.

SIRP has Deposits with SIU of \$101,749 at June 30, 2007. This amount is held in a repayment account held by SIU which consists of rent revenue from the SIRP building tenants received by SIU.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 5 - TRANSACTIONS WITH RELATED PARTIES (Continued)

SIRP offices are located at 150 E. Pleasant Hill Road, Carbondale, Illinois, which is positioned on land for which SIRP has a 30-year ground lease, dated April 11, 2005, with the University. The lease contains renewal options for additional ten year periods. SIRP paid the University \$1 for the lease of this land. The fair value of this lease has not been determined.

SIRP entered into a facility lease with the University on December 31, 2005, covering the property located at 148 E. Pleasant Hill Road, Carbondale, Illinois. The lease is an 18 year lease with renewal options for additional ten year periods. SIRP paid the University \$92,676 for the lease of this facility.

Future minimum rental payments for these leases are as follows:

2008	\$ 161,501
2009	161,501
2010	161,501
2011	161,501
2012	161,501
Thereafter	<u>3,102,427</u>
	<u>\$3,909,932</u>

NOTE 6 - MULTI-PURPOSE BUILDING

During fiscal year 2004, ownership plans for a 20,000 square foot multi-purpose building changed from SIRP owning the building to SIU owning it. The multi-purpose building is meant to further the mission of SIRP. SIRP is in the process of receiving United States Department of Agriculture and United States Delta Regional Authority grants. The reimbursement grants were awarded in the amounts of \$262,000 and \$50,000, respectively.

The stipulation for the grants was originally for the infrastructure of the multi-purpose building, but due to the ownership changes noted above, they were used for the leasehold improvements associated with the project. During the year ended June 30, 2007, SIRP received grant funds in the amount of \$18,718, in reimbursement for eligible costs incurred in fiscal year 2007.

SIRP has entered into subleases with varying terms for the occupancy of the multi-purpose building. Future rental income for these leases is as follows:

2008	\$ 195,590
2009	117,614
2010	85,931
2011	34,159
2012	<u>18,582</u>
	<u>\$ 451,876</u>

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 6 - MULTI-PURPOSE BUILDING (Continued)

While future rental income related to executed leases are identified above, it is anticipated that those leases will renew or will have options executed by the current tenants.

NOTE 7 - RETIREMENT PLAN

All SIRP personnel are SIU employees. Retirement benefits and post-retirement benefits other than pension are available for eligible SIU employees under a contributory retirement plan (the Plan) administered by the State Universities Retirement System. Participants of the Plan contribute 8% of their gross earnings, and SIU annually contributes an amount determined by the State Legislature from State appropriations and amounts from other current funds based on actuarially determined rates. Information pertaining to the Plan and plan benefits can be found in the SIU financial statements. SIRP does not own any of the Plan's assets and has no responsibility for the Plan's obligations.

During the year ended June 30, 2007, SIU contributed \$4,946 to the Plan on behalf of SIRP personnel. This amount is included in the amounts shown as budget allocation from SIU and budget expended at SIU in the accompanying statements of revenue, expenses, and changes in net assets.

NOTE 8 - DEFERRED REVENUE

Certain SIRP building tenants have prepaid rent payments at June 30, 2007. These rent payments are recorded as deferred revenue on the Statement of Net Assets. Also included in this balance are refundable security deposits paid by tenants. The deposits are refundable at the end of the lease term.



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS 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 Directors
Southern Illinois Research Park, Inc.

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Southern Illinois Research Park, Inc. (SIRP) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 11, 2008. 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 SIRP's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing effectiveness of the SIRP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SIRP's internal control over financial reporting.

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

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 deficiencies described in the accompany schedule of findings as items 07-1 and 07-2 to be significant deficiencies in internal control over financial reporting.

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 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 internal control that might be significant deficiencies or material weaknesses. However, we do not believe that the significant deficiencies described above are material weaknesses. We are currently conducting a State compliance examination of the SIRP as required by Illinois State Auditing Act. The results of that examination will be reported to management under a separate cover.

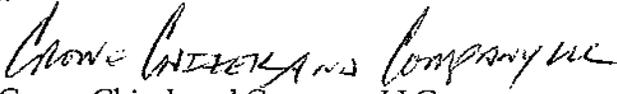
Compliance and Other Matters

As part of obtaining reasonable assurance about whether SIRP'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*.

We are currently conducting a State compliance examination of the SIRP as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

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

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and the Board of Directors and Management of Southern Illinois Research Park, Inc., and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

Chicago, Illinois
January 11, 2008

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
SCHEDULE OF FINDINGS
June 30, 2007

07-1 Fraud Prevention and Detection Program

The SIRP does not have a fraud risk assessment program in place. According to SIRP management, the SIRP has established internal controls in order to prevent and detect fraud as well as errors that may occur, however, these controls and associated risks are not monitored on an on-going basis.

The SIRP relies on current internal controls that have been put in place to prevent and detect fraud. Additionally, SIRP management has relied on the external audits for identification of control weaknesses.

Accounting industry trends have increased organizations' awareness of the prevalence of fraud. Many organizations rely in part on their auditors to uncover any internal fraud, but audits, even those of the highest quality, are not a substitute for management establishing good internal control.

The SIRP is responsible for the development of internal controls and the monitoring of their operating effectiveness. Additionally, it is management's responsibility to prevent and detect fraud. Therefore, the SIRP should implement a formal policy regarding evaluation of fraud risk and a system of controls to help prevent and detect fraudulent activity within its organization. Preparing a written policy will serve to document the SIRP's awareness and responsibility for fraud prevention and detection.

The SIRP does not have a Fraud Prevention and Detection program which could result in fraud risks facing the SIRP not to be recognized and addressed by SIRP management. (Finding Code No. 07-1)

Recommendation

We recommend that management establish a continuous fraud prevention, deterrence and detection program. This program should include evaluating whether appropriate internal controls have been implemented in any areas identified as posing a higher risk of fraudulent activity, as well as controls over financial reporting process. In addition, the Board of Directors should evaluate management's identification of fraud risks and implementation of anti-fraud measures.

SIRP Response

Southern Illinois Research Park management will establish a continuous fraud prevention, deterrence and detection program. In addition, the Board of Directors will evaluate management's identification of fraud risks, and implementation of anti-fraud measures.

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
SCHEDULE OF FINDINGS
June 30, 2007

07-2 Internal Control over Receipts and Expenses Cut-off

SIRP did not adhere to proper cutoff procedures when recording revenues and expenditures at year end. Our testing noted instances where receipts and expenses were being recorded in the wrong period due to improper cutoff procedures. Specifically, we noted the following:

- There were three instances noted where expenses related to 2006 invoices were charged twice to the expense account as a result of improper cutoff. In these instances, accruals were properly recorded at June 30, 2006 for these items. However, when the invoices were paid in 2007, SIRP posted an additional entry to the same expense account. These instances resulted in an overstatement of expense of \$40,677, which was corrected with an audit adjustment.
- Expenses were also not charged to the correct period due to prepaid insurance not being recorded during both 2006 and 2007. As a result of these issues, an audit adjustment was recorded to correct these improper postings and record prepaid expenses. In total, this audit adjustment had an aggregate effect on expenses of \$976.
- Rental income during fiscal years 2006 and 2007 was improperly recognized. Rent receivable and rent income in the amount of \$2,406 should have been recorded at June 30, 2006, and was noted as a "passed adjustment" in the audit. However, SIRP recorded the income only during fiscal year 2007. In addition, an audit adjustment in the amount of \$5,281 was posted as of June 30, 2007, to record a rent receivable and the related rental income for June rent that was paid during July 2007.

All of these errors resulting from the use of improper cutoff procedures were immaterial to the financial statements when considered in the aggregate. SIRP hired a contract accounting firm in the middle of the year to assist in the journal entry and financial statement preparation. It appears that June 30, 2006 accruals were cleared out through entries posted directly to net assets during fiscal year 2007, instead of properly reversing these accruals. Posting these entries directly to net assets can lead to the misstatement of the SIRP's financial statements and the misrepresentation of financial position to financial statement readers.

Generally accepted accounting principles require the use of the accrual basis of accounting. The instances described above are not in compliance with these standards.

Due to turnover in staff and the hiring of an accounting firm to assist with financial reporting in the middle of the year, the transactions noted above were improperly recorded in the SIRP's accounting records.

Failure to follow the accrual method of accounting results in a failure to comply with GASB requirements. In addition, failure to apply proper accounting methods can lead to materially misstated financial statements which misrepresent the financial position of the SIRP to financial statement readers (Finding Code No. 07-2).

STATE OF ILLINOIS
SOUTHERN ILLINOIS RESEARCH PARK, INC.
SCHEDULE OF FINDINGS
June 30, 2007

07-2 Internal Control over Receipts and Expenses Cut-off (Continued)

Recommendation:

We recommend that SIRP management work with the contract accounting firm on a closer basis to consistently apply appropriate cutoff procedures on a monthly basis, in order to correctly accrue rent income and other accruals. Proper cut-off procedures are important in order to ensure that amounts are being recorded correctly and in the proper period and to ensure that financial records are properly stated. Communication between SIRP and the accounting firm must improve so that the accounting firm can gain an understanding of all financial transactions and can properly account for them through the Statement of Revenue, Expenses and Changes in Net Assets, as opposed to recording journal entries directly into the net asset accounts.

SIRP Response

Southern Illinois Research Park management will work with the contract accounting firm on a closer basis to consistently apply appropriate cutoff procedures. The SIRP Board meets on a quarterly basis and appropriate cut-off procedures will follow the calendar quarter months of December 31, March 31, June 30 and September 30.