



Crowe Chizek and Company LLC
Member Horwath International

STATE OF ILLINOIS

**UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY
AT EDWARDSVILLE, INC.**

**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT AUDITORS**

June 30, 2006

(With comparative totals for 2005)

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

STATE OF ILLINOIS
UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.

FINANCIAL STATEMENTS
June 30, 2006

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STATE OF ILLINOIS
UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.

UNIVERSITY PARK OFFICIALS

June 30, 2006

The University Park Board of Directors

Mr. William K. Anderson
Dr. M. Robert Carver
Mrs. Sharon Hahs
Mr. Bruce Holland
Mr. Steve McRae
Ms. Sally G. Metz
Dr. Glen Poshard, President, SIU
Mr. Bart Solon
Dr. Vaughn Vandegrift, Chancellor
Mr. Robert Wetzel
Mr. Ronald D. Winney
Dr. John Haller, representative of Dr. James Walker

Members added during the year

Mr. Bruce Holland
Dr. Glen Poshard

Members retired during the year

Mr. Robert E. McClellan, Jr.
Dr. James Walker

Southern Illinois University personnel who provide significant administrative support to the University Park include

Executive Director	Mr. Brian Donnelly (<i>from 7/1/05 through 12/31/05</i>)
Executive Director	Mr. James R. Pennekamp (<i>from 12/1/05 to present</i>)
Operations Manager	Ms. Janet Haroian
Administrative Secretary	Ms. Cheryl Madson

University Park offices are located at

University Park,
Southern Illinois University at Edwardsville, Inc.
One North Research Drive
Edwardsville, Illinois 62025-3604

STATE OF ILLINOIS
UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.

June 30, 2006

FINANCIAL STATEMENT REPORT
SUMMARY

The audit of the accompanying basic financial statements of University Park, Southern Illinois University at Edwardsville, Inc. (University Park) was performed by Crowe Chizek and Company LLC.

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



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
University Park, Southern Illinois University
at Edwardsville, Inc.

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of University Park, Southern Illinois University at Edwardsville, Inc. (University Park), a component unit of Southern Illinois University, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of University Park's management. Our responsibility is to express an opinion on these financial statements based on our audit. The summarized comparative information of University Park, Southern Illinois University at Edwardsville, Inc. as of June 30, 2005, were audited by other auditors whose report dated September 28, 2005, expressed an unqualified opinion on those 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 University Park, Southern Illinois University at Edwardsville, Inc., as of June 30, 2006, 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 September 21, 2006, on our consideration of University Park'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 the Governmental Accounting Standards Board. 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
September 21, 2006

STATE OF ILLINOIS

UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2006

Introduction

Following this discussion and analysis are the financial statements for University Park, Southern Illinois University at Edwardsville, Inc. (University Park).

During fiscal year 2005, GASB Statement No 40, *Deposit and Investment Risk Disclosures*, was implemented.

This discussion and analysis will identify the financial statements and their relationship to each other and outline any additional facts, decisions, or conditions that are expected to have a significant effect on the financial position of University Park.

Financial Statements

The three financial statements presented are the Statement of Net Assets; the Statement of Revenue, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The financial statements present the financial position and activity in a "business-type activities" format. This format is intended to provide the financial statement user with a better indication of the resources available to the organization and the existing commitments against those resources. The financial statements include prior year data and an analysis of any significant variations between the two years. University Park's overall financial position and operation for the past two years are summarized as follows based on the information included in the Statement of Net Assets and Statement of Revenue, Expenses and Changes in Net Assets.

STATE OF ILLINOIS

UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED) (UNAUDITED)

June 30, 2006

Financial Statements - Continued

	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 727,277	\$1,803,912
Capital assets	<u>1,503,199</u>	<u>624,533</u>
Total assets	<u>2,230,476</u>	<u>2,428,445</u>
Current liabilities	187,789	145,184
Noncurrent liabilities	<u>106,057</u>	<u>474,349</u>
Total liabilities	<u>293,846</u>	<u>619,533</u>
Net assets		
Invested in capital assets, net of related debt	14,249	243,194
Restricted	1,488,950	1,488,950
Unrestricted	<u>433,431</u>	<u>76,768</u>
Total net assets	<u>\$1,936,630</u>	<u>\$ 1,808,912</u>

All assets (resources) are listed in order of their liquidity, and all liabilities (commitments) are listed in order of their term length. The net assets are presented in a manner that indicates the level of restriction, if any, placed on the net assets. As of June 30, 2006, University Park reports \$1,936,630 in net assets, of which \$1,488,950 is considered restricted. Other changes are explained as follows:

Cash: During fiscal year 2006, University Park experienced a decrease in cash in the amount of \$501,847. This decrease is attributed primarily to the expenditure of \$1,295,051 in grant funds towards construction of the Biotechnology Laboratory Incubator. These expenditures offset net proceeds of \$510,219 received from the sale of a building.

Capital Assets: During the year, University Park capitalized \$1,379,975 in construction in progress of a building located in the park. The construction in progress is not being depreciated at this time, but will be depreciated over 30 years using the straight-line method of depreciation when placed in service.

STATE OF ILLINOIS

UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED) (UNAUDITED)

June 30, 2006

Financial Statements - Continued

Notes Payable: During the fiscal year ended June 30, 2004, University Park purchased a building located in the park of which \$400,000 was financed with a bank loan at 4.85% interest over 36 months, maturing December 31, 2006, with a balloon payment due upon maturity of approximately \$364,349. During the fiscal year 2006, this building was sold, and the balance of the note was retired from the sale proceeds. University Park recognized a gain of \$77,573 from the sale of the building.

	<u>Year Ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Operating revenue		
Budget allocation from SIUE	\$ 282,572	\$ 254,020
Ground rents and common area maintenance	82,784	84,202
Other	<u>69,339</u>	<u>68,401</u>
Total operating revenue	<u>434,695</u>	<u>406,623</u>
Operating expenses		
Budget expended at SIUE	282,572	254,020
Contractual services	70,180	58,625
Other	<u>46,069</u>	<u>37,524</u>
Total operating expenses	<u>398,821</u>	<u>350,169</u>
Operating revenue in excess of expenses	35,874	56,454
Total nonoperating revenue	<u>91,844</u>	<u>1,582,251</u>
Increase in net assets	127,718	1,638,705
Net assets		
Beginning of year	<u>1,808,912</u>	<u>170,207</u>
End of year	<u>\$ 1,936,630</u>	<u>\$ 1,808,912</u>

STATE OF ILLINOIS

UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED) (UNAUDITED)

June 30, 2006

Financial Statements - Continued

The Statement of Revenue, Expenses, and Changes in Net Assets details the activity for the fiscal year, including the change in net assets from the prior year due to this activity. Activity is segregated between operating activity and nonoperating activity. GASB defines operating activity as that which has the characteristics of exchange transactions, meaning each party to the transaction receives a material benefit. Nonoperating activity includes non-exchange transactions.

For fiscal year 2006, University Park experienced an increase in net assets of \$127,718. For fiscal year 2005, University Park experienced an increase in net assets of \$1,638,705. Restricted assets represent the total grant revenue received from the DCEO agreement. Other changes are explained below.

Budget Allocation from SIUE: The budget allocation from SIUE and the corresponding budget expended at SIUE increased in fiscal year 2006 from \$254,020 to \$282,572. This amount represents a \$28,552 increase in on-behalf payments for salaries and fringe benefits made by the University for personnel of University Park.

Contractual Services: The amount expended for contractual services increased from \$58,625 in 2005 to \$70,180 in 2006, a difference of \$11,555. The increase is primarily attributable to increases in professional fees.

The primary purpose of the Statement of Cash Flows is to provide relevant information about the cash receipts and cash payments of University Park during the period. University Park is required to use the direct method presentation for this statement, which indicates the cash effects categorized by operations, non-capital financing transactions, capital and related financing transactions, and investing transactions.

Grant and Grant Receivable: During the year 2005, University Park was awarded a \$1,488,950 grant from the Illinois Department of Commerce and Economic Opportunity (DCEO) for the construction of a building in the Park. The Park received \$850,829 in fiscal year 2005 and \$638,121 in fiscal year 2006.

Construction in progress included in capital assets this fiscal year amounted to \$1,495,957.

Other: The notes to the financial statements include additional details and further explanations of data presented in the financial statements. The notes are an integral part of the financial statements and should be included as part of any review or analysis.

STATE OF ILLINOIS
UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.
STATEMENTS OF NET ASSETS
June 30, 2006
(With comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash (Note 3)	\$ 655,756	\$ 1,157,603
Accounts receivable, SIUE (Notes 4 and 9)	17,431	5,406
Accounts receivable, other	53,576	2,257
Grant receivable (Note 11)	-	638,121
Prepaid expenses	<u>514</u>	<u>525</u>
Total current assets	727,277	1,803,912
Noncurrent assets		
Capital assets (Note 5)	<u>1,503,199</u>	<u>624,533</u>
Total noncurrent assets	1,503,199	624,533
Total assets	2,230,476	2,428,445
LIABILITIES		
Current liabilities		
Accounts payable, SIUE (Note 9)	93,139	120,148
Accounts payable, other	85,703	7,964
Deferred revenue (Note 7)	8,948	1,695
Notes payable current portion (Note 8)	-	13,075
Deposits	<u>-</u>	<u>2,302</u>
Total current liabilities	187,790	145,184
Noncurrent liabilities		
Deferred revenue (Note 7)	106,056	106,085
Notes payable (Note 8)	<u>-</u>	<u>368,264</u>
Total noncurrent liabilities	106,056	474,349
NET ASSETS		
Invested in capital assets, net of related debt	14,249	243,194
Restricted	1,488,950	1,488,950
Unrestricted	<u>433,431</u>	<u>76,768</u>
Total net assets	<u>\$ 1,936,630</u>	<u>\$ 1,808,912</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
Year ended June 30, 2006
(With comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
Operating revenue		
Payments from SIUE under agreement for development of University Park facility	\$ 37,268	\$ 37,268
Management fees (Note 9)	32,071	31,133
Budget allocation from SIUE (Note 9)	282,572	254,020
Ground rents and common area maintenance	<u>82,784</u>	<u>84,202</u>
Total operating revenue	434,695	406,623
Operating expenses		
Budget expended at SIUE (Note 9)	282,572	254,020
Travel	4,406	256
Contractual services	70,180	58,625
Telecommunications	3,199	2,592
Commodities	10,022	4,824
Depreciation expense (Note 5)	17,415	18,832
Amortization expense (Note 7)	<u>11,027</u>	<u>11,020</u>
Total operating expenses	<u>398,821</u>	<u>350,169</u>
Operating revenue in excess of expenses	35,874	56,454
Nonoperating revenue (expenses)		
Gain on sale of asset	77,573	-
Grant revenue (Note 11)	-	1,588,950
Interest income	30,389	11,621
Interest expense	(17,569)	(18,823)
Other revenue	<u>1,451</u>	<u>503</u>
Nonoperating revenue, net	<u>91,844</u>	<u>1,582,251</u>
Increase in net assets	127,718	1,638,705
Net assets		
Beginning of year	<u>1,808,912</u>	<u>170,207</u>
End of year	<u>\$ 1,936,630</u>	<u>\$ 1,808,912</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.
STATEMENTS OF CASH FLOWS
Year ended June 30, 2006
(With comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Payment received for ground rents and common area maintenance	\$ 45,672	\$ 36,200
Payments from related organizations	101,579	107,784
General and operating expenses	(70,404)	(35,906)
Payment to related organizations	<u>(1,062)</u>	<u>(731)</u>
Net cash provided by operating activities	75,785	107,347
Cash flows from noncapital financing activities		
Reimbursement of advance to SIUE	(63,853)	-
Other revenue	<u>1,451</u>	<u>503</u>
Net cash provided by (used in) investing activities	(62,402)	503
Cash flows from financing activities		
Proceeds from sale of fixed assets	510,219	-
Proceeds from capital grants	638,121	850,829
Payment of loan principal	(381,339)	(12,468)
Payment of loan interest	<u>(17,569)</u>	<u>(18,823)</u>
Net cash provided by financing activities	749,432	819,538
Cash flows from investing activities		
Purchase of fixed assets	(1,295,051)	(18,847)
Interest income	<u>30,389</u>	<u>11,621</u>
Net cash used in investing activities	<u>(1,264,662)</u>	<u>(7,226)</u>
Net change in cash	(501,847)	920,162
Cash at beginning of year	<u>1,157,603</u>	<u>237,441</u>
Cash at end of year	<u>\$ 655,756</u>	<u>\$ 1,157,603</u>
Reconciliation of operating revenue in excess of expenses to net cash provided by operating expenses		
Operating revenue in excess of expenses	\$ 35,874	\$ 56,454
Adjustments to reconcile operating revenue in excess of expenses to net cash provided by operating activities		
Depreciation	17,415	18,832
Changes in assets and liabilities		
Receivables	(12,096)	505
Prepaid expenses	11	-
Accounts payable	29,659	29,660
Other liabilities	<u>4,922</u>	<u>1,896</u>
Net cash provided by operating activities	<u>\$ 75,785</u>	<u>\$ 107,347</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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

Financial Reporting Entity: University Park, Southern Illinois University at Edwardsville, Inc. (University Park) exists for the primary purpose of aiding and assisting Southern Illinois University Edwardsville (SIUE or the University) in managing the University Park facility.

Due to the significance of the financial relationship with the University, University Park 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 University Park 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 University Park is an Illinois not-for-profit organization legally separate from the University.

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

Financial Statement Presentation: University Park 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 University Park's assets, liabilities, net assets, revenue, expenses, changes in net assets, and cash flows. This presentation replaces the fund-group perspective previously required.

Basis of Accounting: For financial reporting purposes, University Park is considered a special-purpose government engaged only in business-type activities. Accordingly, University Park'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.

(Continued)

STATE OF ILLINOIS
UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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

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

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

Capital Assets: Property and equipment purchased by University Park are recorded at cost. Donated assets are capitalized at estimated fair value at the date of the donation. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5 to 7 years for equipment and furnishings, 15 years for land improvements and 30 years for buildings.

Deferred Revenue: Revenue received in advance for rent is deferred and recorded in income in the period in which the related space is occupied.

Net Assets: University Park's net assets are classified as follows:

- **Invested in capital assets, net of related debt**: This represents University Park's total investment in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations, if any, related to those capital assets.
- **Restricted net assets**: Restricted net assets include resources in which University Park is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. University Park has \$1,488,950 of restricted net assets at June 30, 2006, which represents funds received from a state of Illinois Department of Commerce and Economic Opportunity grant.
- **Unrestricted net assets**: Unrestricted net assets represent resources used for transactions relating to the educational and general operations of University Park and may be used at the discretion of the governing board to meet current expenses for any purpose.

(Continued)

STATE OF ILLINOIS
UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, University Park's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Classifications of Revenue and Expenses: University Park 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 SIUE and rent received from tenants.
- **Nonoperating:** Nonoperating revenue and expenses include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenue and expenses 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.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Data: Comparative totals for the prior year have been presented in the accompanying financial statements to facilitate an understanding of the changes in University Park's financial position and its revenues, expenses, and net assets between years. The 2005 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 University Park's financial statements for the year ended June 30, 2005, from which the summarized financial information was derived.

(Continued)

STATE OF ILLINOIS
UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 - TAX STATUS

The Internal Revenue Service has issued a determination letter, dated December 26, 1996, indicating that University Park 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. The IRS has further determined that University Park is not a private foundation within the meaning of Section 509(a) of the Code because it is an organization described in Section 509(a) (3). No income tax provision has been made as management does not believe it has significant unrelated business income.

NOTE 3 - CASH

The carrying amount of University Park's deposits was \$655,756 at June 30, 2006, and the related bank balance was \$681,375. The Federal Deposit Insurance Corporation insures balances up to \$100,000 at individual institutions. University Park also has agreements with the financial institution in which securities are pledged on University Park's behalf in the amount of \$440,000.

Custodial credit risk on deposits is the risk that, in the event of the failure of a depository financial institution, University Park will not be able to recover deposits that are in the possession of an outside party. University Park had \$19,265 in uninsured and uncollateralized balances at June 30, 2006. University Park does not have a policy for custodial credit risk.

NOTE 4 - ACCOUNTS RECEIVABLE - SIUE

As described in Note 9, the University reimburses University Park for cash flow deficits relating to the management of the University-owned building, pays a 5% service fee for reimbursements of maintenance type costs of three University-owned buildings and reimburses University Park for cash flow deficits relating to the management of the University-leased building. At June 30, 2006, the University owed University Park \$17,431 for these reimbursements.

(Continued)

STATE OF ILLINOIS

UNIVERSITY PARK,
SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006, was as follows:

	Balance July 1, <u>2005</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2006</u>
Capital assets not being depreciated				
Building construction in progress	\$ 115,982	\$ 1,379,975	\$ -	\$ 1,495,957
Capital assets being depreciated				
Building	527,086	-	(527,086)	-
Land improvements	4,865	-	-	4,865
Furniture, fixtures, and equipment	<u>12,957</u>	<u>-</u>	<u>(912)</u>	<u>12,045</u>
Total	544,908	-	(527,998)	16,910
Total accumulated depreciation	<u>(36,357)</u>	<u>(17,415)</u>	<u>44,104</u>	<u>(9,668)</u>
Capital assets being depreciated, net	<u>508,551</u>	<u>(17,415)</u>	<u>(483,894)</u>	<u>7,242</u>
Capital assets, net	<u>\$ 624,533</u>	<u>\$ 1,362,560</u>	<u>\$ (483,894)</u>	<u>\$ 1,503,199</u>

NOTE 6 - OPERATING LEASES

On behalf of SIUE, University Park leases the land designated by SIUE as the University Park grounds. The base period for the majority of the leases is 69 years. As of June 30, 2006, future minimum rental income under the ground leases is summarized as follows:

2007	\$ 52,410
2008	46,601
2009	46,092
2010	46,092
2011	46,092
Thereafter	<u>2,474,051</u>
Total	<u>\$ 2,711,338</u>

(Continued)

STATE OF ILLINOIS
UNIVERSITY PARK,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 - DEFERRED REVENUE

Revenue received in advance for rent is deferred and recorded in income in the period in which the related space is occupied. On January 3, 2000, University Park received rent in advance totaling \$95,440 from one tenant. The rent is effective for the entire lease period ending July 11, 2068. University Park will recognize annual rent income of \$9,544 based on \$8,000 annual rent per acre currently charged other lessees. The resulting discount will be amortized over the life of the lease. Amortization expense for the year ended June 30, 2006 was \$9,531.

Future minimum rental income under the ground leases identified in Note 6 includes \$501,805 associated with the advanced rent at June 30, 2006. Deferred revenue of \$89,908 (current portion of \$15) is included in the accompanying statements of net assets as of June 30, 2006.

On February 10, 2005, University Park received rent in advance totaling \$15,000 from one tenant for additional land added to their lease. The rent is effective for the entire lease period ending April 30, 2059. University Park will recognize annual rent income of \$1,395. Amortization expense for the year ended June 30, 2006 was \$1,385.

Future minimum rental income under the ground leases identified in Note 6 includes \$60,549 associated with the advanced rent at June 30, 2006. Deferred revenue of \$14,977 (current portion of \$12) is included in the accompanying statements of net assets as of June 30, 2006.

On August 9, 2004, University Park received rent in advance totaling \$1,200 from one tenant for additional land added to their lease. The rent is effective for the entire lease period ending July 11, 2068. University Park will recognize annual rent income of \$112. Amortization expense for the year ended June 30, 2006 was \$111.

Future minimum rental income under the ground leases identified in Note 6 includes \$11,682 associated with the advanced rent at June 30, 2006. Deferred revenue of \$1,199 (current portion is less than \$1) is included in the accompanying statements of net assets as of June 30, 2006.

University Park also received in advance \$1,053 of common area maintenance fees and \$7,867 of rental income included in current deferred revenue at June 30, 2006.

(Continued)

STATE OF ILLINOIS
 UNIVERSITY PARK,
 SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

NOTE 8 - NOTE PAYABLE

On December 12, 2003, University Park borrowed \$400,000 for the purpose of financing the purchase of an office building. The note had an interest rate of 4.85% and was to mature on December 12, 2006. The note was paid in full with proceeds from the sale of the building on May 24, 2006.

	Balance July 1, <u>2005</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2006</u>
Note payable	\$ <u>381,339</u>	\$ <u> -</u>	\$ <u>381,339</u>	\$ <u> -</u>

NOTE 9 - TRANSACTIONS WITH RELATED PARTIES

Property Management: On January 12, 1994, University Park entered into a master contract with the Board of Trustees of SIUE which specifies the relationship between the two organizations in accordance with the Legislative Audit Commission's University Guidelines, 1997, as amended. Under the terms of the agreement, University Park agreed to act as agent for the University with respect to the University Park facility. As such, University Park is responsible for the management, operation, leasing, and maintenance of the land, buildings, facilities, and other property included in the University Park facility. Pursuant to ground leases, all buildings constructed and owned by private investors will become the University's property at the end of the respective lease terms, which are generally sixty-nine years plus three renewal options of ten years each. The University transfers funds to University Park each year as determined necessary to support the activities of University Park. Any unused funds and net income of University Park, as may be requested by the University, may be required to be transferred to the University. However, the University has not expressed any intent to request unused funds and net income and University Park is not aware of any intent to do so in the near term.

Personnel: The University has assigned an Executive Director and support staff to University Park. The University employs these individuals. Pursuant to GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, University Park is required to recognize as revenue and expense those on-behalf payments for salaries and fringe benefits made by the University for personnel of University Park. The amount reflected as budget allocation from SIUE and budget expended at SIUE in the accompanying statements of revenue, expenses, and changes in net assets total \$282,572 for the year ended June 30, 2006.

(Continued)

STATE OF ILLINOIS
UNIVERSITY PARK,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 9 - TRANSACTIONS WITH RELATED PARTIES (Continued)

Occupancy: The University constructed the building used for University Park administration and University Park occupies the space without charge by the University. Therefore, no amounts for this building are capitalized and no rent expense is reflected in the accompanying financial statements.

The University incurs normal operating expenses on behalf of University Park, e.g., utilities, for which it requests reimbursement from University Park.

Building Management of University-Owned Building: On May 29, 2001, University Park entered into an agreement with the Board of Trustees of SIUE under which University Park manages, operates, and maintains a SIUE-owned building on behalf of SIUE. SIUE pays University Park a management fee from the revenue of the property. If revenue is insufficient, SIUE has agreed to pay the management fee. The amount of management fee revenue recorded under this agreement during the year ended June 30, 2006 was \$25,536.

University Park invoices SIUE to reimburse any operating deficit of the building and University Park will forward to SIUE any operating income. The management agreement allows for a reserve for unanticipated expenditures. The reserve was increased by the fiscal year 2006 operating income of \$36,843 and decreased by the fiscal year 2005 operating income of \$63,852 forwarded to the University leaving a \$93,139 reserve build up presented on the statements of net assets as accounts payable - SIUE at June 30, 2006.

Building Management of University-Leased Building: On December 12, 2003, University Park entered into two agreements with the Board of Trustees of SIUE under which the University leases a building from University Park and University Park manages, operates, and maintains the building. The lease rental is \$1 per year, plus the cost of debt service associated with the loan for the office building. The common area maintenance is \$500 per year.

During 2006, the University has reimbursed \$52,132 to University Park for certain expenditures, of which \$3,835 was receivable at June 30, 2006. The expenditures and the related reimbursements are not included in the accompanying statements of revenue, expenses and changes in net assets as these are the University's expenses and revenues and do not belong to, thus not reported by, University Park.

University Park invoices SIUE to reimburse any operating deficit of the building and University Park will forward to SIUE any operating income. As of June 30, 2006, no reimbursements have been made.

(Continued)

STATE OF ILLINOIS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 9 - TRANSACTIONS WITH RELATED PARTIES (Continued)

Building Services to University-Owned Buildings: On April 29, 2004, University Park entered into an agreement with the Board of Trustees of SIUE under which University Park will contract for specific grounds keeping, janitorial, and light maintenance services for a SIUE-owned building on behalf of SIUE. SIUE reimburses University Park the costs of these services and pays University Park a 5% service fee.

On March 15, 2005, University Park entered into an agreement with the Board of Trustees of SIUE under which University Park will contract for specific grounds keeping, janitorial, and light maintenance services for a SIUE-owned building on behalf of SIUE. SIUE reimburses University Park the costs of these services and pays University Park a 5% service fee.

On August 15, 2005, University Park entered into an agreement with the Board of Trustees of SIUE under which University Park will contract for specific grounds keeping, janitorial, and light maintenance services for a SIUE-owned building on behalf of SIUE. SIUE reimburses University Park the costs of these services and pays University Park a 5% service fee.

During 2006, SIUE reimbursed University Park \$44,909 for certain costs pertaining to these three agreements and had yet to fund a receivable balance of \$12,899 at June 30, 2006. The expenditures and the related reimbursements are not included in the accompanying statements of revenue, expenses, and changes in net assets as these are the University's expenses and revenues and do not belong to, thus not reported by, University Park. However the amount of 5% service fee recorded under this agreement for fiscal year 2006 was \$2,700, which is included in management fees on the statements of revenue, expenses, and changes in net assets.

NOTE 10 - RETIREMENT PLAN

All full-time University Park personnel are SIUE employees. Retirement benefits and post-retirement benefits other than pension are available for eligible SIUE 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 SIUE 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 the Plan's benefits can be found in the SIU financial statements. University Park does not own any of the Plan's assets and has no responsibility for the Plan's obligations.

During the year ended June 30, 2006, SIUE contributed \$12,124 to the Plan on behalf of University Park personnel. This amount is included in the amounts shown as budget allocation

(Continued)

STATE OF ILLINOIS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 10 - RETIREMENT PLAN (Continued)

from SIUE and budget expended at SIUE in the accompanying statements of revenue, expenses, and changes in net assets.

NOTE 11 - GRANTS

During fiscal year 2005, the Park received a \$1,488,950 grant from the Illinois Department of Commerce and Economic Opportunity (Grant #05-20408) for use in constructing the Biotechnology Laboratory Incubator (BLI). The BLI is an 11,700 square feet multi-tenant wet laboratory that will be constructed adjacent to the National Corn-to-Ethanol Research Center in University Park. As of June 30, 2006, \$1,303,544 grant funds have been expended.

NOTE 12 - COMMITMENTS

In June of 2005, University Park entered into an agreement with a contractor to construct the Biotechnology Laboratory Incubator (see Note 11 for grant related to this construction). The agreement was approved by the Board in the amount of \$1,302,000. Subsequent change orders have increased the contract sum to \$1,333,473. As of June 30, 2006, \$1,233,780 has been paid on this contract and an additional \$84,924 has been recorded as accounts payable.



Crowe Chizek and Company LLC
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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
University Park, Southern Illinois University
at Edwardsville, Inc.

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of University Park, Southern Illinois University at Edwardsville, Inc. (University Park) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 21, 2006. 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 University Park'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 to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University Park'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*.

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 University Park, Southern Illinois University at Edwardsville, Inc. and is not intended to be and should not be used by anyone other than these specified parties.



Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Chicago, Illinois
September 21, 2006