

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

FINANCIAL STATEMENTS  
June 30, 2007

CONTENTS

AGENCY OFFICIALS.....	1
SUMMARY.....	2
REPORT OF INDEPENDENT AUDITORS.....	3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	5
BASIC FINANCIAL STATEMENTS	
STATEMENTS OF NET ASSETS.....	9
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS.....	10
STATEMENTS OF CASH FLOWS.....	11
NOTES TO FINANCIAL STATEMENTS.....	13
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.....	22
SCHEDULE OF FINDINGS AND RECOMMENDATIONS.....	24

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

AGENCY OFFICIALS

June 30, 2007

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The University Park Board of Directors:

Mr. William K. Anderson  
Mr. Steve McRae  
Ms. Sally G. Metz  
Ms. Ronda Sauget  
Mr. Bart Solon  
Dr. Vaughn Vandegrift  
Mr. Robert Wetzel  
Mr. Ronald D. Winney  
Mr. Bart Solon  
Dr. John Haller, representative of Dr. Glenn Poshard

Members added during the year:

Dr. Paul W. Ferguson  
Mr. Bruce Holland  
Dr. Glenn Poshard

Members retired during the year:

Dr. M. Robert Carver  
Mrs. Sharon Hahs  
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. James R. Pennekamp
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

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

FINANCIAL STATEMENT REPORT SUMMARY  
June 30, 2007

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The audit of the accompanying basic financial statements of University Park, Southern Illinois University 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.

SUMMARY OF FINDINGS

The auditors identified matters involving the Agency's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 24-26 of this report, as finding 07-1, (Fraud Prevention and Detection Program) and finding 07-2, (Inadequate Segregation of Duties).

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on January 24, 2008. Attending were:

Attendees

Kim Labonte, OAG  
Stuart Miller, Crowe Chizek  
Scott Termine, Crowe Chizek  
Mark Maraccini, Crowe Chizek  
James Pennekamp, University Park Executive Director  
Janet Haroian, University Park Operations Manager

The responses to the recommendations were provided by Janet Haroian in a written correspondence on January 22, 2008.



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  
Edwardsville, Inc.

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of University Park, Southern Illinois University Edwardsville, Inc. (University Park), 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 University Park'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 the University Park's 2006 financial statements and, in our report dated September 21, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 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 23, 2008, 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 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.

  
Crowe Chizek and Company LLC

Chicago, Illinois  
January 23, 2008

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
June 30, 2007

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**Introduction**

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

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 Statements of Net Assets; the Statements of Revenue, Expenses, and Changes in Net Assets; and the Statements 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 Statements of Net Assets and Statements of Revenue, Expenses, and Changes in Net Assets.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
June 30, 2007

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**Financial Statements - Continued**

**Condensed Statement of Net Assets**

	<u>2007</u>	<u>2006</u>	<u>Difference</u>
Current and other assets	\$ 522,157	\$ 727,277	\$ (205,120)
Capital assets	<u>1,599,529</u>	<u>1,503,199</u>	<u>96,330</u>
Total assets	<u>2,121,686</u>	<u>2,230,476</u>	<u>(108,790)</u>
Current liabilities	94,099	187,790	(93,691)
Noncurrent liabilities	<u>106,029</u>	<u>106,056</u>	<u>(27)</u>
Total liabilities	<u>200,128</u>	<u>293,846</u>	<u>(93,718)</u>
Invested in capital assets, net of related debt	1,599,529	14,249	1,585,280
Restricted	-	1,488,950	(1,488,950)
Unrestricted	<u>322,029</u>	<u>433,431</u>	<u>(111,402)</u>
Total net assets	<u>\$ 1,921,558</u>	<u>\$ 1,936,630</u>	<u>\$ (15,072)</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, 2007, University Park reports \$1,921,558 in net assets, of which \$0 is considered restricted. Other changes are explained as follows.

**Cash:** During fiscal year 2007, University Park experienced a decrease in cash in the amount of \$159,256. This decrease is attributed primarily to the expenditure of \$191,456 in grant funds towards construction of the Biotechnology Laboratory Incubator. These expenditures offset net proceeds of \$51,248 received from the sale of a building.

**Capital Assets:** During the year, University Park capitalized \$106,532 in construction in progress of a building located in the park. This amount brought the total capitalized cost of the building to \$1,602,489. The building was placed in service during the year and will be depreciated over 30 years using the straight-line method. Depreciation expense related to the building this year was \$8,903.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
June 30, 2007

**Financial Statements - Continued**

**Restricted Net Assets:** The grant project which provided funding for the Biotechnology Laboratory Incubator was completed and close-out documents filed during the year. As a result, the amount of net assets classified as restricted in 2006 has been presented in 2007 as invested in capital assets.

**Condensed Statement of Revenue, Expenses, and Changes in Net Assets**

	<u>Year Ended June 30</u>		
	<u>2007</u>	<u>2006</u>	<u>Difference</u>
Operating revenue			
Budget allocation from SIU	\$ 291,646	\$ 282,572	\$ 9,074
Ground rents and common area maintenance	58,148	82,784	(24,636)
Other revenues	66,896	69,339	(2,443)
Total operating revenues	<u>416,690</u>	<u>434,695</u>	<u>(18,005)</u>
Operating expenses			
Budget expended at SIU	291,646	282,572	9,074
Contractual services	100,120	70,180	29,940
Other expenses	30,750	46,069	(15,319)
Total operating expenses	<u>422,516</u>	<u>398,821</u>	<u>23,695</u>
Operating income (expense)	<u>(5,826)</u>	35,874	<u>(41,700)</u>
Total nonoperating revenues (expenses)	<u>(9,246)</u>	91,844	<u>(101,090)</u>
Increase (decrease) in net assets	<u>(15,072)</u>	<u>127,718</u>	<u>(142,790)</u>
Net assets			
Net assets - beginning of year	<u>1,936,630</u>	1,808,912	127,718
Net assets - end of year	<u>\$ 1,921,558</u>	<u>\$ 1,936,630</u>	<u>\$ (15,072)</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2007

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**Financial Statements - Continued**

The Statements of Revenue, Expenses, and Changes in Net Assets detail 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 non-operating activity. GASB defines operating activity as that which has the characteristics of exchange transactions, meaning each party to the transaction receives a material benefit. Non-operating activity includes non-exchange transactions.

For fiscal year 2007, University Park experienced a decrease in net assets of \$15,072. For fiscal year 2006, University Park experienced an increase in net assets of \$127,718. 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 2007 from \$282,572 to \$291,646. This amount represents a \$9,074 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 \$70,180 in 2006 to \$100,120 in 2007, a difference of \$29,940. The increase is primarily attributable to increases in mowing/landscaping, utilities, and marketing expense.

The Statements of Cash Flows' primary purpose 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 Funds Returned:** During FY 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 earned interest on the grant principal of \$28,420 and spent \$5,350 of this amount on the project. Upon completion of the project, the Park returned \$23,070 of unexpended interest to DCEO.

**Facts, Decisions or Conditions Affecting the Financial Positions**

**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.

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

STATEMENTS OF NET ASSETS  
June 30, 2007  
(With comparative totals for 2006)

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	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current assets		
Cash (Note 3)	\$ 496,500	\$ 655,756
Accounts receivable, SIUE (Notes 4 and 9)	15,450	17,431
Accounts receivable, other	9,674	53,576
Prepaid expenses	533	514
Total current assets	<u>522,157</u>	<u>727,277</u>
Noncurrent assets		
Capital assets (Note 5)	<u>1,599,529</u>	<u>1,503,199</u>
Total noncurrent assets	<u>1,599,529</u>	<u>1,503,199</u>
Total assets	<u>2,121,686</u>	<u>2,230,476</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable, SIUE (Note 9)	76,863	93,139
Accounts payable, other	9,884	85,703
Deferred revenue (Note 7)	<u>7,352</u>	<u>8,948</u>
Total current liabilities	<u>94,099</u>	<u>187,790</u>
Noncurrent liabilities		
Deferred revenue (Note 7)	<u>106,029</u>	<u>106,056</u>
Total noncurrent liabilities	<u>106,029</u>	<u>106,056</u>
Total liabilities	<u>200,128</u>	<u>293,846</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	1,599,529	14,249
Restricted	-	1,488,950
Unrestricted	<u>322,029</u>	<u>433,431</u>
Total net assets	<u>\$ 1,921,558</u>	<u>\$ 1,936,630</u>

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See accompanying notes to financial statements.

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

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

Year ended June 30, 2007

(With comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
Operating revenue		
Payments from SIUE under agreement for development of University Park facility	\$ 37,268	\$ 37,268
Management fees (Note 9)	29,628	32,071
Budget allocation from SIUE (Note 9)	291,646	282,572
Ground rents and common area maintenance	<u>58,148</u>	<u>82,784</u>
Total operating revenue	<u>416,690</u>	<u>434,695</u>
Operating expenses		
Budget expended at SIUE (Note 9)	291,646	282,572
Travel	2,100	4,406
Contractual services	100,120	70,180
Telecommunications	3,787	3,199
Commodities	3,637	10,022
Depreciation expense (Note 5)	10,202	17,415
Amortization expense (Note 7)	<u>11,024</u>	<u>11,027</u>
Total operating expenses	<u>422,516</u>	<u>398,821</u>
Operating revenue in excess of expenses	(5,826)	35,874
Nonoperating revenue (expenses)		
Gain on sale of asset	-	77,573
Grant funds returned (Note 11)	(23,070)	-
Interest income	12,563	30,389
Interest expense	-	(17,569)
Other revenue	<u>1,261</u>	<u>1,451</u>
Nonoperating revenue, net	<u>(9,246)</u>	<u>91,844</u>
Increase (decrease) in net assets	(15,072)	127,718
Net assets		
Beginning of year	<u>1,936,630</u>	<u>1,808,912</u>
End of year	<u>\$ 1,921,558</u>	<u>\$ 1,936,630</u>

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS  
Year ended June 30, 2007  
(With comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Receipts received for ground rents and common area maintenance	\$ 51,160	\$ 45,672
Receipts from related organizations	66,896	101,579
General and operating payments	(72,850)	(70,404)
Payments to related organizations	<u>(7,605)</u>	<u>(1,062)</u>
Net cash provided by operating activities	<u>37,601</u>	<u>75,785</u>
Cash flows from noncapital financing activities		
Reimbursement of advance to SIUE	(47,403)	(63,853)
Other receipts	<u>1,261</u>	<u>1,451</u>
Net cash used in noncapital financing activities	<u>(46,142)</u>	<u>(62,402)</u>
Cash flows from financing activities		
Proceeds from sale of fixed assets	51,248	510,219
Purchase of fixed assets	(191,456)	(1,295,051)
Grant funds returned	(23,070)	-
Proceeds from capital grants	-	638,121
Payment of loan principal	-	(381,339)
Payment of loan interest	<u>-</u>	<u>(17,569)</u>
Net cash used in financing activities	<u>(163,278)</u>	<u>(545,619)</u>
Cash flows from investing activities		
Interest received	<u>12,563</u>	<u>30,389</u>
Net provided by investing activities	<u>12,563</u>	<u>30,389</u>
Net change in cash	(159,256)	(501,847)
Cash at beginning of year	<u>655,756</u>	<u>1,157,603</u>
Cash at end of year	<u>\$ 496,500</u>	<u>\$ 655,756</u>

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS  
Year ended June 30, 2007  
(With comparative totals for 2006)

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	<u>2007</u>	<u>2006</u>
Reconciliation of operating revenue in excess of expenses to net cash provided by operating expenses		
Operating revenue in excess of expenses	\$ (5,826)	\$ 35,874
Adjustments to reconcile operating revenue in excess of expenses to net cash provided by operating activities		
Depreciation	10,202	17,415
Changes in assets and liabilities		
Receivables	(5,365)	(12,096)
Prepaid expenses	(19)	11
Accounts payable	40,232	29,659
Other liabilities	<u>(1,623)</u>	<u>4,922</u>
Net cash provided by operating activities	<u>\$ 37,601</u>	<u>\$ 75,785</u>

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See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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

Financial Reporting Entity: University Park, Southern Illinois University 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.

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(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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**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 statement 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 \$0 and \$1,488,950 of restricted net assets at June 30, 2007 and 2006, respectively, which represents funds received from a state of Illinois Department of Commerce and Economic Opportunity grant.

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(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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

- **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.

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.

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(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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**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 University Park's financial position and its revenues, 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 University Park's financial statements for the year ended June 30, 2006, from which the summarized financial information was derived.

**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 \$ 496,500 at June 30, 2007, and the related bank balance was \$ 509,827. The Federal Deposit Insurance Corporation insures balances up to \$100,000 at individual institutions.

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 \$1,823 in uninsured and uncollateralized balances at June 30, 2007. 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. At June 30, 2007, the University owed University Park \$15,450 for these reimbursements.

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(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 5 - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2007, was as follows:

	Balance July 1, <u>2006</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2007</u>
Capital assets not being depreciated				
Building construction in progress	\$ <u>1,495,957</u>	\$ <u>106,532</u>	\$( <u>1,602,489</u> )	\$ <u>-</u>
Capital assets being depreciated				
Building	-	1,602,489	-	1,602,489
Land improvements	4,865	-	-	4,865
Furniture, fixtures, and equipment	<u>12,045</u>	<u>-</u>	<u>-</u>	<u>12,045</u>
Total	16,910	1,602,489	-	1,619,399
Total accumulated depreciation	<u>(9,668)</u>	<u>(10,202)</u>	<u>-</u>	<u>(19,870)</u>
Capital assets being depreciated, net	<u>7,242</u>	<u>1,592,287</u>	<u>-</u>	<u>1,599,529</u>
Capital assets, net	<u>\$ 1,503,199</u>	<u>\$ 1,698,819</u>	<u>\$(1,602,489)</u>	<u>\$ 1,599,529</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, 2007, future minimum rental income under the ground leases is summarized as follows:

2008	\$ 58,361
2009	57,851
2010	57,851
2011	57,851
2012	57,851
Thereafter	<u>2,433,472</u>
Total	<u>\$ 2,723,237</u>

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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**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, 2007 was \$9,529.

Future minimum rental income under the ground leases identified in Note 6 includes \$582,489 associated with the advanced rent at June 30, 2007. Deferred revenue of \$89,893 (current portion of \$16) is included in the accompanying statements of net assets as of June 30, 2007.

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, 2007 was \$1,384.

Future minimum rental income under the ground leases identified in Note 6 includes \$72,307 associated with the advanced rent at June 30, 2007. Deferred revenue of \$14,965 (current portion of \$12) is included in the accompanying statements of net assets as of June 30, 2007.

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, 2007 was \$111.

Future minimum rental income under the ground leases identified in Note 6 includes \$6,811 associated with the advanced rent at June 30, 2007. Deferred revenue of \$1,199 (current portion is less than \$1) is included in the accompanying statements of net assets as of June 30, 2007.

University Park also received in advance \$7,324 of rental income included in current deferred revenue at June 30, 2007.

**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, 2007. The note was paid in full with proceeds from the sale of the building on May 24, 2006.

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(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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**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 \$291,646 for the year ended June 30, 2007.

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, 2007 was \$25,536.

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(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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**NOTE 9 - TRANSACTIONS WITH RELATED PARTIES (Continued)**

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 2007 operating income of \$31,127 and decreased by the fiscal year 2006 operating income of \$47,403 forwarded to the University leaving a \$76,863 reserve build up presented on the statements of net assets as accounts payable - SIUE at June 30, 2007.

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 leased a building from University Park and University Park managed, operated, and maintained the building. The lease rental was \$1 per year, plus the cost of debt service associated with the loan for the office building. The common area maintenance was \$500 per year.

On May 24, 2006, the building was sold by University Park and the lease agreement between University Park and SIUE terminated.

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 2007, SIUE reimbursed University Park \$66,743 for certain costs pertaining to these three agreements and had yet to fund a receivable balance of \$15,450 at June 30, 2007. 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 2007 was \$4,073, which is included in management fees on the statements of revenue, expenses, and changes in net assets.

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(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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**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, 2007, SIUE contributed \$16,354 to the Plan on behalf of University Park personnel. This amount is included in the amounts shown as budget allocation 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, 2007, all of the grant funds have been expended. In addition, \$23,070 in unexpended interest earned was returned to the Illinois Department of Commerce and Economic Opportunity.



Crowe Chizek and Company LLC  
Member Horwath International

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 Directors  
University Park, Southern Illinois University  
Edwardsville, Inc.

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the University Park, Southern Illinois University Edwardsville, Inc. (University Park), as of and for the year ended June 30, 2007, and have issued our report thereon dated January 23, 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 University Park's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of University Park's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University Park'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 accompanying schedule of findings as items 07-1 and 07-2 to be a 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 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 do not believe that the significant deficiencies described above are material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*. We are currently conducting a State compliance examination of the University Park as required by the Illinois State Auditing Act. The results of the examination will be reported to management under separate cover. We also noted certain other matters which we have reported to management of the University Park in a separate letter dated January 23, 2008.

The University Park's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the University Park'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, agency management, and the board of directors 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 23, 2008

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2007

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**07-1 Fraud Prevention and Detection Program**

University Park does not have a fraud risk assessment program in place. According to University Park management, the University Park 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.

University Park relies on current internal controls that have been put in place to prevent and detect fraud. Additionally, University Park 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.

University Park 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, University Park 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 University Park's awareness and responsibility for fraud prevention and detection.

University Park does not have a Fraud Prevention and Detection program which could result in fraud risks facing the University Park not to be recognized and addressed by University Park 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, implementation of anti-fraud measures.

Management Response

University Park will work to create a fraud prevention, deterrence and detection program with evaluation of the policy by the Board of Directors.

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2007

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**07-2 Inadequate Segregation of Duties**

University Park does not have adequate segregation of duties over cash and cash receipts. Specifically, we noted the following:

- The same individual is responsible for opening the mail, preparing deposit slips, recording deposits in QuickBooks, receiving unopened bank statements and reconciling the bank account.
- There is only a one-signature requirement for wire transfers and all signatories on the bank accounts are authorized to make wire transfers and they are also authorized to open bank accounts in the name of the University Park. Therefore, it is possible that a signatory could open a fraudulent account and wire transfer funds into the account.

The Organization has one individual performing the accounting functions, which diminishes the ability of internal controls to operate effectively as the same person handles many aspects of the same transaction.

According to University Park management, due to the small size of the University Park's staff, a complete segregation of duties is simply not feasible.

The segregation of duties and functions within major transaction cycles is a critical element of the system of internal accounting control. The conceptual basis for the segregation of duties is that different employees handle different parts of the same transaction and the work done by each acts as a check on the others. (Finding Code No. 07-2)

Recommendation

We recommend that the University Park assign the receipt of the unopened bank statement to an individual other than the employee responsible for preparing cash receipts and preparing the bank reconciliation. Cancelled checks and all other transactions should be reviewed for reasonableness before the statement is handed over for reconciliation. Furthermore, we recommend that the University Park notify the bank of a two-signature requirement for all wire transfers.

Management Response

In light of the limited number of personnel in the office and in an effort to satisfy the recommendations of the auditors, the operations manager shall open the bank statements upon receipt of those documents and review them for appropriateness prior to the reconciliation with QuickBooks prepared by the administrative secretary.

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2007

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**07-2 Inadequate Segregation of Duties (continued)**

(The operations manager currently does the review of the checkbooks, bank statements and the QuickBooks reconciliations for each account as prepared by the administrative secretary. The operations manager then signs each document and dates them when the reconciliation review was completed. This includes initialing the checkbooks at the close of each month's activities.)

University Park shall contact the respective banking institutions with Park funds on deposit and make the necessary changes to the signature cards to reflect the requirement of two signatures for wire transfers.