

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

**FINANCIAL AUDIT  
Years Ended June 30, 2008 and 2007**

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

**STATE OF ILLINOIS  
UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
FINANCIAL AUDIT  
Years Ended June 30, 2008 and 2007**

**TABLE OF CONTENTS**

|   | <b>PAGE</b>    |
|---|----------------|
| <b>COMPANY OFFICIALS .....</b>  | <b>1</b>       |
| <br><b>FINANCIAL STATEMENT REPORT</b>   |                |
| Summary.....  | 2              |
| Independent Auditor’s Report.....   | 3              |
| Management’s Discussion and Analysis.....   | 5              |
| Basic Financial Statements:   |                |
| Statements of Net Assets.....   | 10             |
| Statements of Revenues, Expenses, and Changes in Net Assets.....  | 11             |
| Statements of Cash Flows.....   | 12             |
| Notes to Financial Statements.....  | 13             |
| <br>Independent Auditor’s Report on Internal Control over Financial Reporting and on<br>Compliance and Other Matters Based on an Audit of Financial Statements Performed<br>In Accordance with <i>Government Auditing Standards</i> ..... | <br><br><br>19 |
| <br>Prior Findings Not Repeated.....  | <br>21         |

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
COMPANY OFFICIALS  
June 30, 2008 and 2007**

|   |                     |
|---|---------------------|
| Chair of Board                                | Edward L. McMillan  |
| Vice Chair                                    | Patrick F. Daly     |
| Treasurer (thru 2/1/07)                       | Steven K. Rugg      |
| Treasurer (2/1/07 thru current)               | Walter Knorr        |
| Secretary                                     | Thomas R. Bearrows  |
| Director (thru 12/31/06)                      | David. L. Chicoine  |
| Interim Director (1/16/07 thru 12/31/07)      | James A. Weyenmeyer |
| Director (1/1/08 thru current)                | Avijit Ghosh        |
| Manager, Research Park & Incubator Facilities | Scott Pickard       |

Board of Managers:

|                    |                     |
|--------------------|---------------------|
| Patrick F. Daly    | Dr. Kenneth Schmidt |
| Larry H. Danziger  | Charles F. Zukoski  |
| Edward L. McMillan |                     |
| Eric A. Gislason   |                     |

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

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

## FINANCIAL STATEMENT REPORT

### SUMMARY

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

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

### EXIT CONFERENCE

An exit conference was held on October 23, 2008. Attending were:

Representing University of Illinois Research Park, LLC

Avijit Ghosh  
Walter Knorr  
Melissa Miner  
Scott Pickard  
Dan Dobell  
Roger Wade

Representing the Office of the Auditor General

Thomas Kizziah

Representing Clifton Gunderson LLP

Beth Auterman  
Paul Pelletier

## Independent Auditor's Report

The Honorable William G. Holland  
Auditor General  
State of Illinois

and

Board of Managers  
University of Illinois  
Research Park, LLC

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of University of Illinois Research Park, LLC, a component unit of the University of Illinois, and a component unit of the State of Illinois as of June 30, 2008 and June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Illinois Research Park, LLC as of June 30, 2008 and June 30, 2007, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2008 on our consideration of the University of Illinois Research Park, LLC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 5 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Clifton Henderson LLP*

Peoria, Illinois  
October 27, 2008

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 AND 2007**

(Unaudited)

**INTRODUCTION**

The following discussion and analysis provides an overview of the financial position and activities of the University of Illinois Research Park, LLC for the year ended June 30, 2008, with selected comparative information for the years ended June 30, 2007 and June 30, 2006. This discussion has been prepared by the management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. These include the Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows.

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

**USING THE FINANCIAL STATEMENTS**

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

The Statements of Net Assets are presented to show the assets, liabilities, and net assets as of June 30, 2008 and June 30, 2007. Following the Statements of Net Assets are the Statements of Revenues, Expenses, and Changes in Net Assets which provide operational information for the Research Park. The Statements of Cash Flows provide details on how cash was used during the two years.

**FINANCIAL HIGHLIGHTS**

The Research Park experienced an increase in net assets of \$152,992 from June 30, 2007 to June 30, 2008 compared to an increase of \$402,300 from June 30, 2006 to June 30, 2007. The main factors contributing to the increase from June 30, 2007 to June 30, 2008 are capital asset additions and increases in accrued lease income. The Research Park invoiced the University \$456,506 in fiscal 2007 for services rendered and to be rendered on behalf of the University by the Research Park of which \$392,360 was recognized as service income by the Research Park; the remaining \$64,146 was deferred. This is the main reason underlying the increase from June 30, 2006 to June 30, 2007.

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 AND 2007**

(Unaudited)

**FINANCIAL HIGHLIGHTS (CONTINUED)**

The Statements of Net Assets indicate an increase in current assets of \$63,707 from June 30, 2006 to June 30, 2007 and a decrease of \$80,314 from June 30, 2007 to June 30, 2008. The change from fiscal year 2006 to fiscal year 2007 is primarily due to the recognition of deferred charges associated with telecommunications infrastructure projects paid for in the fiscal year ended June 30, 2007. The decrease in current assets from June 30, 2007 to June 30, 2008 is, likewise, associated with the liquidation of the charges deferred in fiscal year 2007.

The changes in capital assets are due to additions in the years ended June 30, 2008 and June 30, 2007. Total assets increased by \$166,022 between June 30, 2006 and 2007 and increased by \$68,351 between June 30, 2007 and 2008. The increase of \$68,351 from June 30, 2007 to June 30, 2008 was due primarily to telecommunications installations for new buildings in the Research Park. Current liabilities decreased by \$84,641 between June 30, 2007 and 2008 as the revenue that was deferred in fiscal year 2007 was recognized and accounts payable were reduced. The decrease in liabilities from June 30, 2006 to June 30, 2007 of \$236,278 was the result of payments made to the University for leasehold improvements incurred by the University on behalf of the Research Park.

**Summary Statements of Net Assets**

|   | <u>2008</u>                | <u>2007</u>              | <u>2006</u>              |
|---|----------------------------|--------------------------|--------------------------|
| Current assets                                  | \$ 6,549                   | \$ 86,863                | \$ 23,156                |
| Capital assets                                  | 809,454                    | 720,175                  | 669,567                  |
| Accrued lease income                            | <u>232,440</u>             | <u>173,054</u>           | <u>121,347</u>           |
| <b>Total assets</b>                             | <b><u>\$ 1,048,443</u></b> | <b><u>\$ 980,092</u></b> | <b><u>\$ 814,070</u></b> |
| Current liabilities                             | <u>\$ 31,628</u>           | <u>\$ 116,269</u>        | <u>\$ 352,547</u>        |
| Net assets:                                     |                            |                          |                          |
| Invested in capital assets, net of related debt | 809,454                    | 720,175                  | 368,540                  |
| Unrestricted                                    | <u>207,361</u>             | <u>143,648</u>           | <u>92,983</u>            |
| Total net assets                                | <u>1,016,815</u>           | <u>863,823</u>           | <u>461,523</u>           |
| <b>Total liabilities and net assets</b>         | <b><u>\$ 1,048,443</u></b> | <b><u>\$ 980,092</u></b> | <b><u>\$ 814,070</u></b> |

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 AND 2007**

(Unaudited)

**FINANCIAL HIGHLIGHTS (CONTINUED)**

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

|   | <u>2008</u>       | <u>2007</u>       | <u>2006</u>     |
|---|-------------------|-------------------|-----------------|
| Operating revenues:   |                   |                   |                 |
| Budget allocation – University of Illinois                            | \$ 286,947        | \$ 309,312        | \$ 158,332      |
| Service income  | 119,631           | 392,360           | 103,165         |
| Rental income   | <u>164,159</u>    | <u>158,033</u>    | <u>106,313</u>  |
| Total operating revenues  | <u>570,737</u>    | <u>859,705</u>    | <u>367,810</u>  |
| Operating expenses:   |                   |                   |                 |
| Salaries  | 114,492           | 101,511           | 115,569         |
| Advertising   | 89,713            | 26,074            | -               |
| Depreciation  | 30,352            | 28,304            | 29,270          |
| Legal fees  | 40,902            | 37,640            | 37,240          |
| Office supplies   | 2,000             | 1,500             | -               |
| Office  | -                 | -                 | 61              |
| Professional fees   | 21,897            | 65,770            | 54,822          |
| Rent  | 6,642             | 6,712             | 5,523           |
| Services under 13 <sup>th</sup> Amendment to<br>Development Agreement | 86,770            | 41,274            | -               |
| Subscriptions/dues/luncheons  | 2,168             | 1,832             | -               |
| Support for Enterprise Works  | -                 | 19,847            | 30,000          |
| Support for Office of Vice Chancellor<br>for Research                 | -                 | 106,326           | 71,014          |
| Telecommunications  | 1,200             | 1,200             | -               |
| Travel  | 1,860             | 2,252             | -               |
| Other   | <u>19,867</u>     | <u>17,229</u>     | <u>19,362</u>   |
| Total operating expenses  | <u>417,863</u>    | <u>457,471</u>    | <u>362,861</u>  |
| Operating income  | 152,874           | 402,234           | 4,949           |
| Nonoperating revenue  |                   |                   |                 |
| Interest  | <u>118</u>        | <u>66</u>         | <u>19</u>       |
| <b>Increase in net assets</b>   | <u>\$ 152,992</u> | <u>\$ 402,300</u> | <u>\$ 4,968</u> |

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 AND 2007**

(Unaudited)

**FINANCIAL HIGHLIGHTS (CONTINUED)**

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

|  | <u>2008</u>       | <u>2007</u>       |
|--|-------------------|-------------------|
| Budget allocation – University of Illinois |                   |                   |
| Development Agreement Payments made        | \$ 91,770         | \$ 26,274         |
| Funding from the University                | 116,479           | 40,779            |
| University Services Provided               | 60,337            | 136,036           |
| Salaries Provided                          | 114,492           | 98,011            |
| Rent                                       | 6,642             | 6,712             |
| Other University Resources Provided        | 2,000             | 1,500             |
| Less lease payments applied                | <u>(104,773)</u>  | <u>-</u>          |
|  | <u>\$ 286,947</u> | <u>\$ 309,312</u> |

The budget allocation decreased by \$22,365 from June 30, 2007 to June 30, 2008. This is primarily due to land lease receipts offsetting costs incurred by the University associated with operating Research Park. The increase of \$150,980 from June 30, 2006 to June 30, 2007 is due to the addition of University resources and improved tracking of services provided to the Research Park that had not been recognized in past years. Service income decreased by \$272,729 from June 30, 2007 to June 30, 2008 due to the one-time recognition of accumulated Service Income for the fiscal year ended June 30, 2007. Service income increased by \$289,195 from June 30, 2006 to June 30, 2007 as a result of the Research Park invoicing the University for services rendered. This is the first time the Research Park has formally requested reimbursement from the University

Support for the Office of the Vice Chancellor for Research in the fiscal year ended June 30, 2008 decreased by \$106,326 as a result of change in processes related to land lease payments received being used to offset costs incurred by the University to operate Research Park instead of being used to support the Office of the Vice Chancellor for Research. The decrease in support for Enterprise Works of \$19,847 was due to no Research Park funds being used in fiscal 2008 for Enterprise Works operations.

Summarized cash flows include:

|  | <u>2008</u>     | <u>2007</u>      |
|--|-----------------|------------------|
| Cash Flows from Operating activities                     | \$ 3,714        | \$ 379,434       |
| Cash Flows from Capital and Related Financing Activities | -               | (379,939)        |
| Cash Flows from Investing Activities                     | <u>118</u>      | <u>66</u>        |
| Increase (Decrease) in Cash                              | <u>\$ 3,832</u> | <u>\$ ( 439)</u> |

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 AND 2007**

(Unaudited)

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

The operating functions of the Research Park have been assigned to the University of Illinois. As such, the Research Park has no employees and relies exclusively on University employees for operational support. Phase IV.2.a of the Research Park has been delayed due to other business ventures of the Developer taking a priority to the new development.

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
STATEMENTS OF NET ASSETS  
June 30, 2008 and 2007**

**ASSETS**

|                                 | <u>2008</u>             | <u>2007</u>           |
|---------------------------------|-------------------------|-----------------------|
| <b>CURRENT ASSETS</b>           |                         |                       |
| Cash                            | \$ 6,549                | \$ 2,717              |
| Accounts receivable             | -                       | 20,000                |
| Deferred charges                | -                       | <u>64,146</u>         |
| Total current assets            | <u>6,549</u>            | <u>86,863</u>         |
| <br><b>CAPITAL ASSETS</b>       | <br><u>809,454</u>      | <br><u>720,175</u>    |
| <br><b>ACCRUED LEASE INCOME</b> | <br><u>232,440</u>      | <br><u>173,054</u>    |
| <br><b>TOTAL ASSETS</b>         | <br><u>\$ 1,048,443</u> | <br><u>\$ 980,092</u> |

**LIABILITIES AND NET ASSETS**

|   |                         |                       |
|---|-------------------------|-----------------------|
| <b>CURRENT LIABILITIES</b>                  |                         |                       |
| Accounts payable                            | \$ 31,628               | \$ 52,123             |
| Deferred revenue                            | -                       | <u>64,146</u>         |
| Total current liabilities                   | <u>31,628</u>           | <u>116,269</u>        |
| <br><b>NET ASSETS</b>                       |                         |                       |
| Invested in capital assets                  | 809,454                 | 720,175               |
| Unrestricted                                | <u>207,361</u>          | <u>143,648</u>        |
| Total net assets                            | <u>1,016,815</u>        | <u>863,823</u>        |
| <br><b>TOTAL LIABILITIES AND NET ASSETS</b> | <br><u>\$ 1,048,443</u> | <br><u>\$ 980,092</u> |

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

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES  
IN NET ASSETS  
Years Ended June 30, 2008 and 2007**

|  | <u>2008</u>         | <u>2007</u>       |
|--|---------------------|-------------------|
| <b>OPERATING REVENUES</b>                              |                     |                   |
| Budget allocation - University of Illinois             | \$ 286,947          | \$ 309,312        |
| Service income   | 119,631             | 392,360           |
| Rental income  | <u>164,159</u>      | <u>158,033</u>    |
| Total operating revenues                               | <u>570,737</u>      | <u>859,705</u>    |
| <b>OPERATING EXPENSES</b>                              |                     |                   |
| Salaries   | 114,492             | 101,511           |
| Advertising  | 89,713              | 26,074            |
| Depreciation   | 30,352              | 28,304            |
| Legal fees   | 40,902              | 37,640            |
| Office supplies  | 2,000               | 1,500             |
| Professional fees                                      | 21,897              | 65,770            |
| Rent   | 6,642               | 6,712             |
| Services under 13th Amendment to Development Agreement | 86,770              | 41,274            |
| Subscriptions/dues/luncheons                           | 2,168               | 1,832             |
| Support for Enterprise Works                           | -                   | 19,847            |
| Support for Office of Vice Chancellor for Research     | -                   | 106,326           |
| Telecommunications                                     | 1,200               | 1,200             |
| Travel   | 1,860               | 2,252             |
| Other  | <u>19,867</u>       | <u>17,229</u>     |
| Total operating expenses                               | <u>417,863</u>      | <u>457,471</u>    |
| Operating income                                       | 152,874             | 402,234           |
| <b>NONOPERATING REVENUE</b>                            |                     |                   |
| Interest   | <u>118</u>          | <u>66</u>         |
| <b>INCREASE IN NET ASSETS</b>                          | 152,992             | 402,300           |
| <b>NET ASSETS, BEGINNING OF YEAR</b>                   | <u>863,823</u>      | <u>461,523</u>    |
| <b>NET ASSETS, END OF YEAR</b>                         | <u>\$ 1,016,815</u> | <u>\$ 863,823</u> |

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

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2008 and 2007**

|   | <u>2008</u>       | <u>2007</u>       |
|---|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |                   |
| Service income  | \$ -              | \$ 456,506        |
| Budget allocation - University of Illinois  | 5,000             | -                 |
| Payments to suppliers   | <u>(1,286)</u>    | <u>(77,072)</u>   |
| Net cash provided by operating activities   | <u>3,714</u>      | <u>379,434</u>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                         |                   |                   |
| Purchase of capital assets  | <u>-</u>          | <u>(379,939)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                   |                   |
| Interest income   | <u>118</u>        | <u>66</u>         |
| <b>INCREASE (DECREASE) IN CASH</b>  | 3,832             | (439)             |
| <b>CASH, BEGINNING OF YEAR</b>  | <u>2,717</u>      | <u>3,156</u>      |
| <b>CASH, END OF YEAR</b>  | <u>\$ 6,549</u>   | <u>\$ 2,717</u>   |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  |                   |                   |
| Operating income  | \$ 152,874        | \$ 402,234        |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                   |                   |
| Non-cash service income   | (119,631)         | -                 |
| Depreciation  | 30,352            | 28,304            |
| Effects of changes in operating assets and liabilities:                                 |                   |                   |
| Accounts receivable   | 20,000            | -                 |
| Deferred charges  | 64,146            | -                 |
| Accrued lease income  | (59,386)          | (51,707)          |
| Accounts payable  | (20,495)          | 603               |
| Deferred revenue  | <u>(64,146)</u>   | <u>-</u>          |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  | <u>\$ 3,714</u>   | <u>\$ 379,434</u> |
| <b>SIGNIFICANT NON-CASH CAPITAL FINANCING TRANSACTIONS:</b>                             |                   |                   |
| Capital assets acquired without exchanging cash   | <u>\$ 119,631</u> | <u>\$ -</u>       |

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

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

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

**Nature of Operations**

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

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

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

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

**Basis of Presentation**

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

**Use of Estimates**

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

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

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

**Capital Assets**

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

**Income Taxes**

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

**Revenue Recognition**

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

**NOTE 2 - DEPOSITS**

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

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

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

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**NOTE 3 - DEVELOPMENT AGREEMENT AND ACCRUED LEASE INCOME**

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

As of June 30, 2008, seven tracts have been leased under the terms of the development agreement.

Total accrued lease income under these leases as of June 30, 2008 and 2007 is \$232,440 and \$173,054, respectively.

Minimum future rentals to be received on these noncancelable leases as of June 30, 2008 are as follows:

|              |                            |
|--------------|----------------------------|
| 2009         | \$ 104,978                 |
| 2010         | 121,990                    |
| 2011         | 139,003                    |
| 2012         | 156,015                    |
| 2013         | 173,028                    |
| Later years  | <u>7,130,876</u>           |
| <b>Total</b> | <b><u>\$ 7,825,890</u></b> |

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the years ended June 30, 2008 and 2007 was as follows:

|                               | <b>2008</b>                  |                  |                    |                           |
|-------------------------------|------------------------------|------------------|--------------------|---------------------------|
|                               | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending<br/>Balance</u> |
| Office equipment              | \$ 48,313                    | \$ -             | \$ 48,313          | \$ -                      |
| Leasehold improvements        | <u>802,378</u>               | <u>119,631</u>   | <u>-</u>           | <u>922,009</u>            |
|                               | 850,691                      | 119,631          | 48,313             | 922,009                   |
| Less accumulated depreciation | <u>130,516</u>               | <u>30,352</u>    | <u>48,313</u>      | <u>112,555</u>            |
|                               | <u>\$ 720,175</u>            | <u>\$ 89,279</u> | <u>\$ -</u>        | <u>\$ 809,454</u>         |

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

|                               | <b>2007</b>                         |                         |                           | <b><u>Ending<br/>Balance</u></b> |
|-------------------------------|-------------------------------------|-------------------------|---------------------------|----------------------------------|
|                               | <b><u>Beginning<br/>Balance</u></b> | <b><u>Additions</u></b> | <b><u>Retirements</u></b> |                                  |
| Office equipment              | \$ 48,313                           | \$ -                    | \$ -                      | \$ 48,313                        |
| Leasehold improvements        | <u>723,466</u>                      | <u>78,912</u>           | <u>-</u>                  | <u>802,378</u>                   |
|                               | 771,779                             | 78,912                  | -                         | 850,691                          |
| Less accumulated depreciation | <u>102,212</u>                      | <u>28,304</u>           | <u>-</u>                  | <u>130,516</u>                   |
|                               | <u>\$ 669,567</u>                   | <u>\$ 50,608</u>        | <u>\$ -</u>               | <u>\$ 720,175</u>                |

**NOTE 5 - OPERATING LEASES**

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

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

Future minimum lease payments under these leases are as follows:

|              |                        |
|--------------|------------------------|
| 2009         | \$ 70                  |
| 2010         | 70                     |
| 2011         | 70                     |
| 2012         | 70                     |
| 2013         | 70                     |
| Later years  | <u>2,850</u>           |
| <b>Total</b> | <b><u>\$ 3,200</u></b> |

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**NOTE 6 - RELATED PARTY TRANSACTIONS**

The University provides support to the Research Park including salaries (staff are University employees), bookkeeping and accounting services, and certain administrative costs as provided in the operating and service agreement. For the years ended June 30, 2008 and 2007, the University provided support in the amount of \$286,947 and \$309,312, respectively, to the Research Park which has been recognized as budget allocation in the Statements of Revenues, Expenses, and Changes in Net Assets.

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

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

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

**NOTE 7 – MANAGEMENT FEES AND DEFERRED REVENUE**

In response to recommendations from the Office of the Auditor General and the University of Illinois Office of Business and Financial Services, regarding the University Guidelines of 1982 as amended in 1997, the Research Park, LLC billed the University for management services a total of \$456,506 in the spring of 2007 for services rendered for the first time since inception, and \$55,485 in fiscal year 2008. Such amounts were, in turn, used to pay campus departments for costs incurred in the extension of the telecommunications infrastructure to buildings in the Research Park. The deferred balance of \$64,146 in the June 30, 2007 financial statements represents deferred telecommunications infrastructure charges which were paid for in advance by campus units and recognized in the fiscal year ended June 30, 2008.

**NOTE 8 – SIGNIFICANT NONCASH TRANSACTIONS**

Significant noncash transactions were recognized on the financial statements for the fiscal years ended June 30, 2008 and June 30, 2007. These transactions are presented to formally recognize the goods and services provided by the University to operate the Research Park. A survey was completed for the fiscal year ended June 30, 2008 in coordination with the University of Illinois Office of Business and Financial Services in order to estimate the value of these resources. The University of Illinois provided the Research Park with non-cash support for wages, professional services, and facilities totaling \$286,947 for fiscal year 2008, and \$309,312 for fiscal year 2007. In fiscal year 2008, the rental payments received from the Developer were deposited directly into an agency fund account maintained by the University and used to reimburse the University for these costs. In fiscal year 2007, the rental payments were deposited directly in a University account and were considered support for the Office of Vice Chancellor for Research. Other noncash transactions during fiscal year 2008 included the elimination of a \$20,000 receivable and payable, and capital assets acquired from the University netted against services provided to the University.

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007**

**NOTE 9 - COMMITMENTS**

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

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|---------------|
| 2007               | \$ 41,274     |
| 2008               | \$ 86,770     |

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

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

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

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of University of Illinois Research Park, LLC as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 27, 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 the University of Illinois Research Park, LLC's internal control over financial reporting as a basis for determining our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the University of Illinois Research Park, LLC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University of Illinois Research Park, LLC's internal control over financial reporting.

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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

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

We noted certain matters which we have reported to management of the University of Illinois Research Park, LLC in a separate letter dated October 27, 2008.

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

*Clifton Anderson LLP*

Peoria, Illinois  
October 27, 2008

**UNIVERSITY OF ILLINOIS  
RESEARCH PARK, LLC  
SCHEDULE OF FINDINGS  
Prior Findings Not Repeated  
June 30, 2008**

**A Finding: Inaccurate Statement of Cash Flows**

The University of Illinois Research Park, LLC (Research Park) did not prepare an accurate Statement of Cash Flows. (Finding Code No. 07-1)

*Status* – Not repeated

The Statement of Cash Flows prepared for the current audit was accurate.