STATE OF ILLINOIS
ILLINOIS VENTURES, LLC
AND ITS SUBSIDIARY
Chicago, Illinois

FINANCIAL AUDIT
For the Year Ended June 30, 2005

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

STATE OF ILLINOIS
ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
FINANCIAL AUDIT
For the Year Ended June 30, 2005

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ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
COMPANY OFFICIALS
June 30, 2005

Chairman of the Board	James Foght
Vice Chair	Warren Holtsberg
CEO and Managing Director	John Banta
Secretary	Tom Bearrows
Treasurer	Stephen Rugg
Principal Officer of the Sole Member	David Chicoine

Board of Managers:	Ex Offico:
Michael Tokarz	Stephen Rugg
Eric Gislason	Tom Bearrows
James Foght	John Banta
Warren Holtsberg	Steve Veazie
Larry Eppley	
Chip Zukoski	
Kenneth D. Schmidt, M.D.	
William P. Tai	
James C. Tyree	

Illinois Ventures, LLC offices are located at:

20 N. Wacker Drive
Suite 1201
Chicago, Illinois

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements for Illinois Ventures, LLC and Its Subsidiary was performed by Clifton Gunderson LLP.

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditors' Report

The Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Managers
Illinois Ventures, LLC and Its Subsidiary

As Special Assistant Auditors for the Auditor General, we have audited the accompanying consolidated statement of net assets of Illinois Ventures, LLC and Its Subsidiary, a component unit of the University of Illinois, as of June 30, 2005, and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Illinois Ventures, LLC and Its Subsidiary as of June 30, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company's investments are presented at cost, or the equity method with an adjustment for impairment when, in the opinion of Illinois Ventures management, events or circumstances indicate that there has been an impairment in the value of the investments. Because of the inherent uncertainty of the valuation of the investments the estimated values of management may differ significantly from the values that would have been used had a ready market existed for the investments and the differences could be material.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2005 on our consideration of the Illinois Ventures, LLC and Its Subsidiary'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 considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 5 through 7 is not a required part of the basic consolidated financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Peoria, Illinois
August 11, 2005

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

(Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the Illinois Ventures, LLC and Its Subsidiary for the year ended June 30, 2005. This discussion has been prepared by the management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. These include the Consolidated Statement of Net Assets, Consolidated Statement of Revenues, Expenses, and Changes in Net Assets, and Consolidated Statement of Cash Flows.

By agreement with the Board of Trustees of the University of Illinois ("University"), Illinois Ventures exists for the sole purpose of aiding and assisting the University of Illinois, to facilitate commercialization of various technologies including those originated or developed by faculty, staff, and/or students of the University by obtaining seed and venture capital funding to assist a select group of start-up companies.

USING THE FINANCIAL STATEMENTS

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

The Consolidated Statement of Net Assets is presented to show assets, liabilities, and net assets at June 30, 2005. Following the Consolidated Statement of Net Assets is the Consolidated Statement of Revenues, Expenses, and Changes in Net Assets, which provides operational information. The Consolidated Statement of Cash Flows provides details on sources and uses of cash during the period.

FINANCIAL HIGHLIGHTS

During fiscal 2005, Illinois Ventures, LLC and Its Subsidiary continued to increase its consultative and investment activity. This increase resulted in an appropriate rise in Net Assets from the prior year. Investment activity is expected to continue in the near future and will lead to further increases in Net Assets.

Illinois Ventures, LLC's subsidiary, Illinois Ventures GP, LLC, began operations during the year ended June 30, 2004. Illinois Ventures, LLC has a 95 percent ownership interest in Illinois Ventures GP, LLC. Illinois Ventures GP, LLC is the general partner in Illinois Emerging Technology Fund, with a 1 percent ownership interest. Illinois Ventures GP, LLC has made capital commitments to Illinois Emerging Technology Fund of $255,177. As of June 30, 2005, Illinois Ventures, LLC has made capital contributions to Illinois Emerging Technology Fund of $76,544.

FINANCIAL HIGHLIGHTS (CONTINUED)

The Company started receiving management fees from Illinois Emerging Technology Fund during the year ended June 30, 2004.

During the year ended June 30, 2004, the Company started leasing space on Wacker Drive in Chicago, which is now its primary office location. Additional capital assets were acquired in connection with this additional office space.

Consolidated Statements of Net Assets

	2005	2004
Current assets	$ 591,819	$ 232,404
Capital assets	55,958	60,608
Investments	2,348,248	1,294,086
Total assets	$ 2,996,025	$ 1,587,098
Current liabilities	$ 305,368	$ 387,090
Net assets:		
Reserved for minority interest in subsidiary	3,046	1,007
Invested in capital assets	55,958	60,608
Unrestricted	2,631,653	1,138,393
Total net assets	2,690,657	1,200,008
Total liabilities and net assets	$ 2,996,025	$ 1,587,098

The increased consultative and investment activity in start-up companies resulted in a similar increase in Service Income for fiscal 2005.

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

(Unaudited)

FINANCIAL HIGHLIGHTS (CONTINUED)

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets

	2005	2004
Service income	$ 3,010,135	$ 2,173,091
Operating expenses:		
Salaries	1,000,615	845,454
Office supplies	17,862	14,659
Professional fees	160,229	148,546
Office rent	77,878	28,925
Depreciation	24,363	23,461
Insurance	44,417	34,557
Telephone	62,025	57,917
Sponsorships	5,000	15,289
Subscriptions	13,845	-
Conferences	26,877	11,343
Travel, meals, and entertainment	93,695	75,410
Miscellaneous	47,236	34,015
Total expenses	1,574,042	1,289,576
Operating income	1,436,093	883,515
Nonoperating revenue	52,211	51,016
Increase in net assets	$ 1,488,304	$ 934,531

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Illinois Ventures, LLC receives operating funding from public sources through the University of Illinois including the Offices of the President and the respective Offices of the Vice Chancellor of Research at UIUC and UIC. Future reductions in these sources of funding would adversely affect its ability to fulfill its mission.

Increases in valuation of and disposal of investments in and advances to start-up companies could favorably impact Illinois Ventures, LLC's operations. Conversely, decrease in valuation and/or failure to dispose of said securities could have an adverse impact on operations if these assets are written down.

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF NET ASSETS
June 30, 2005

ASSETS

CURRENT ASSETS		
Cash	$ 371,642	
Accounts receivable	191,168	
Prepaid and other assets	29,009	$ 591,819
CAPITAL ASSETS		55,958
INVESTMENTS		
Advances to start-up companies	1,041,290	
Equity investments in start-up companies	1,239,930	
Investment in Illinois Emerging Technology Fund	67,028	2,348,248
TOTAL ASSETS		$ 2,996,025

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 73,904	
Accrued expense	231,464	$ 305,368
NET ASSETS		
Reserve for minority interest in subsidiary	3,046	
Invested in capital assets	55,958	
Unrestricted	2,631,653	2,690,657
TOTAL LIABILITIES AND NET ASSETS		$ 2,996,025

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

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2005

OPERATING REVENUES		$ 3,010,135
OPERATING EXPENSES		
Salaries	$ 1,000,615	
Office supplies	17,862	
Professional fees	160,229	
Office rent	77,878	
Depreciation	24,363	
Insurance	44,417	
Telephone	62,025	
Sponsorships	5,000	
Subscriptions	13,845	
Conferences	26,877	
Travel, meals, and entertainment	93,695	
Miscellaneous	47,236	1,574,042
Operating income		1,436,093
NONOPERATING REVENUES		
Interest	58,009	
Loss from investment in Illinois Emerging Technology Fund	(5,798)	52,211
INCREASE IN NET ASSETS		1,488,304
NET ASSETS, BEGINNING OF YEAR		1,200,008
NET CHANGE IN RESERVE FOR MINORITY INTEREST IN SUBSIDIARY		2,345
NET ASSETS, END OF YEAR		$ 2,690,657

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

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES		
Operating revenue	$ 3,010,135	
Payments to suppliers	(1,632,899)	
Net cash provided by operating activities		$ 1,377,236
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(19,713)	
Minority interest capital contribution	2,661	
Net cash used in capital and related financing activities		(17,052)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cost incurred to be reimbursed by other entities	(143,006)	
Net cash used in noncapital financing activities		(143,006)
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances to start-up companies	(723,814)	
Equity investment in start-up companies	(230,832)	
Investment in Illinois Emerging Technology Fund	(53,228)	
Interest income	5,607	
Net cash used in investing activities		(1,002,267)
INCREASE IN CASH		214,911
CASH, BEGINNING OF YEAR		156,731
CASH, END OF YEAR		$ 371,642
NONCASH ACTIVITIES		
Accrued interest on advances to start-up companies		$ 52,402
Loss from investment in Illinois Emerging Technology Fund		$ (5,798)

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2005

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 1,436,093
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	24,363
Effects of changes in operating assets and liabilities:	
Prepaid and other assets	(1,498)
Accounts payable	(106,655)
Accrued expense	24,933
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,377,236

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

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

Nature of Operations

Illinois Ventures, LLC (Ventures) was organized May 30, 2000 as an Illinois limited liability company with offices located in Chicago, Illinois. Ventures was organized by and is a component unit of the University of Illinois (University). The sole member is the University of Illinois, a body corporate and politic of the State of Illinois. To the extent provided by the Illinois Limited Liability Company Act, the member's liability is limited.

The purpose of Ventures is to facilitate commercialization of various technologies including those originated or developed by faculty, staff, and/or students of the University by obtaining seed and venture capital funding to assist a select group of start-up companies.

Illinois Ventures GP, LLC was formed May 8, 2001 to be the general partner of the Illinois Emerging Technologies Fund, LP. The Illinois Emerging Technologies Fund, LP is a private fund whose purpose is to invest in start-up companies.

Basis of Presentation

Ventures prepared its financial statements as a business-type activity, as defined by Governmental Accounting Standards Board (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, Ventures 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 Company 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.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Ventures and its 95 percent-owned subsidiary Illinois Ventures GP, LLC. Intercompany transactions and balances have been eliminated in consolidation.

Capital Assets

Capital assets are stated at cost and depreciated over the estimated useful life of each asset. Annual depreciation is computed using the straight-line method.

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

Investments

Advances To Start-Up Companies

Advances to start-up companies are generally in the form of convertible debt or promissory notes, which are not readily transferable. The advances in some cases have stock warrants associated with them. The fair value of any equity securities, stock warrants, or stock rights are not readily determinable. The advances are carried at the lower of cost, adjusted for accrued interest as defined in the debt agreement, or estimated fair value. Because of inherent uncertainties of valuation of advances to start-up companies, the estimated fair value may differ significantly from the values that would have been used had a ready market for the convertible debt existed, and the differences could be material.

Equity Investment in Start-Up Companies and Investment in Illinois Emerging Technology Fund

Equity investment in start-up companies are generally in the form of preferred or common stock, which are not readily transferable. Investment in Illinois Emerging Technology Fund is a private fund whose purpose is to invest in start-up companies. The fair value of these equity securities is not readily determinable. The investments are carried based on the equity method adjusted for any impairment of the investments. Because of inherent uncertainties of valuation of investments in start-up companies for possible impairment, the estimated fair value may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Compensated Absences

It is Venture's policy to permit employees to accumulate earned but unused vacation up to a maximum of 48 days. All vacation pay is accrued when incurred.

Income Taxes

Ventures' sole member has elected to have Ventures' income taxed as a limited liability company under 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 in its tax return. No provision for federal and state income taxes is included in these statements.

Revenue Recognition and Classification

Revenue is recognized as services are provided. Ventures has classified its service revenue as operating. All other revenues are classified as nonoperating.

NOTE 2 - DEPOSITS

Interest Rate Risk. Ventures does not have a formal policy for interest rate risk. All of Venture'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. Ventures does not have a formal policy for credit risk. All of Venture's deposits are in either a commercial checking account or a bank money market account.

Custodial Credit Risk. Deposits, as of June 30, 2005, are categorized in accordance with the risk factors defined by governmental reporting standards.

Depository Account	Bank Balance
Insured	$ 100,000
Collateralized or pledged:	
Collateral held by pledging bank not in the Company's name	164,269
Uninsured and uncollateralized	121,492
Total deposits	$ 385,761

Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to the Company.

NOTE 3 - ACCOUNTS RECEIVABLE

During the year ended June 30, 2005, Ventures incurred legal and other costs on behalf of other entities. Ventures intends to seek reimbursement from these entities for these expenses. Management believes all items are collectible and, therefore, an allowance is not necessary. The following is an analysis of the accounts receivable as of June 30, 2005:

Illinois Emerging Technology Fund	$ 45,721
Chicago ITEC	28,173
Immune Cell Therapy, Inc	14,356
Mobitrac, Inc	5,000
NanoSi, Inc.	5,000
Orthogenesis, Inc	20,561
pSi-Tech, Inc	5,061
RiverGlass, Inc	5,034
Tekion	62,262
Total	$ 191,168

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Office equipment	$ 99,501	$ 19,713	$ -	$ 119,214
Less accumulated depreciation	38,893	24,363	-	63,256
Total	$ 60,608	$ (4,650)	$ -	$ 55,958

NOTE 5 - INVESTMENTS

Ventures is authorized to make investments in start-up companies in the form of convertible debt, promissory notes, warrants, common stock and preferred stock. The investments are made directly by Ventures or through a private fund which Ventures manages, (Illinois Emerging Technology Fund). Ventures manages all of its investments. Ventures did not engage in any significant derivative transactions during the year ended June 30, 2005. Ventures does not participate in security lending transactions. The following is a summary of the carrying value of Venture's investment portfolio as of June 30, 2005:

Advances to start-up companies:	
Convertible debt	$ 1,041,290
Equity investments in start-up companies:	
Preferred stock	1,232,850
Common stock	7,080
Investment in Illinois Emerging Technology Fund	67,028
Total	$ 2,348,248

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Ventures minimizes interest rate risk by generally limiting the terms of the convertible debt to between 2 and 3 years. Venture's investments in fixed income obligations and maturities at June 30, 2005 are illustrated below:

Maturities in Years

	Less Than 1	1-5	5-10	Greater Than 10	None Stated	Total
Convertible debt	$ 504,047	$ 477,204	$ -	$ -	$ 60,039	$ 1,041,290

NOTE 5 - INVESTMENTS (CONTINUED)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Venture's investments are in start-up companies that are developing new technologies. By their very nature these investment have a higher credit risk associated with them than other investments. The investments are not publicly traded and are not subject to quality ratings.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, Ventures will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than Ventures and are not registered in Venture's name. Ventures has no formal policy in regard to custodial credit risk. At June 30, 2005, Venture's investments are all held by Ventures and have no custodial credit risk exposure.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of Venture's investment in a single issuer. Ventures does not have a policy that limits the maximum amount that may be invested in any one security. Venture's involvement with Illinois Emerging Technology Fund allows for additional sources of funds for investments in start-up companies and makes more diversification of investments possible than Ventures could attain on its own.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rate will adversely affect the fair value of an investment. Venture's investments are generally not exposed to foreign currency risk. As of June 30, 2005, Ventures was not exposed to foreign currency risk.

Illinois Ventures implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3) for the fiscal year ended June 30, 2005.

Advances to Start-Up Companies

Advances to private start-up companies are valued at cost plus accrued interest, unless there has been a significant change in current operating performance of the start-up company. The value of the advances will be adjusted when, in the opinion of Illinois Ventures management, events or circumstances indicate that there has been impairment in value.

NOTE 5 - INVESTMENTS (CONTINUED)

Advances to Start-Up Companies (Continued)

Following is a summary of advances to start-up companies as of June 30, 2005:

Company Name	Balance at June 30, 2005
AriSphere Inc	$ 7,350
DzymeTech, Inc.	25,208
ICYT Mission Technology Inc	117,330
Immune Cell Therapy	51,833
NanoSi, Inc	111,871
Open Integration, Inc.	11,848
Orthogenesis, Inc.	53,792
PG BioPharma Corporation	29,179
Pharmaln, Ltd.	52,733
PRZM	28,650
Psi-Tech, Inc.	100,756
Pyxis Genomics, Inc.	29,020
SmartSpark Energy Systems, Inc.	26,406
Startis, Inc.	31,057
Transplan, Inc.	48,191
ZelleRx Corporation	316,066*
Total	$ 1,041,290

NOTE 5 - INVESTMENTS (CONTINUED)

Equity Investment in Start-up Companies

Following is a summary of equity investments in start-up companies:

Company Name		Balance at June 30, 2005
Advanced Diamond Technologies, Inc.	364,500 shares series A preferred	$ 225,000*
DzymeTech, Inc.	100,000 shares common	100
DzymeTech, Inc.	50,000 shares common - class A	50
Immune Cell Therapy, Inc.	21,428 shares common	5,357
INI Power	1,098,506 shares series A preferred	109,500
Mobitrac, Inc.	131,056 shares series B-1 preferred	131,056*
Mobitrac, Inc.	565,546 shares series B-2 preferred	250,000*
Nano Disc, Inc	40,027 shares series A preferred	134,687*
NanoSi Technologies, Inc.	7,500 shares common	75
Orthogenesis, Inc.	100,000 shares common	200
PRZM	181,818 shares common	182
pSi-Tech, Inc.	50,000 shares common	50
RiverGlass, Inc.	128,000 shares common	1,066
RiverGlass, Inc.	514,642 shares series A preferred	150,000*
Renew Power	875,000 shares series A preferred	175,000*
Senex Biotechnology, Inc.	42,904 shares series A preferred	57,607
Total		$ 1,239,930

* Represents five percent or more of total investments.

The investments in start-up companies are all technology related. The technologies under development might not become feasible businesses. As such, there is increased inherent risk associated with these investments and the ultimate realization of Venture’s investment in these companies is uncertain.

Investment in Illinois Emerging Technology Fund

During the year ended June 30, 2004, Illinois Emerging Technology Fund was created, with total capital commitments of $25,517,671. On July 15, 2005, additional capital commitments were received for $1,010,101, increasing the total commitments to $26,527,772. The purpose of the fund is to make venture capital investments that promote the commercialization of various technologies including those originated or developed by faculty, staff, and/or students of the University of Illinois. Illinois Ventures GP, LLC is the general partner of the Fund with a 1 percent ownership interest. Illinois Ventures GP, LLC total capital committed to the fund is $255,176 as of June 30, 2005. The following is a schedule of Illinois Ventures GP, LLC capital commitments to the fund as of June 30, 2005:

NOTE 5 - INVESTMENTS (CONTINUED)

Investment in Illinois Emerging Technology Fund (Continued)

Capital calls to date	$ 76,544
Remaining capital commitment	178,632
Total capital commitment	$ 255,176

On July 15, 2005, an additional capital commitment was made by Illinois Ventures GP, LLC for an additional $10,101.

Illinois Ventures, LLC owns 95 percent of Illinois Ventures GP, LLC.

Illinois Ventures, LLC has been hired by Illinois Emerging Technology Fund to manage the fund. Illinois Ventures is to be paid a fee of 2 percent of committed capital through January 27, 2009. After that date, the management fee will be an annual rate of 2 percent of funded investments. The fee is paid at the start of each calendar quarter.

NOTE 6 - OPERATING LEASES

Ventures leases office space under noncancelable operating leases expiring in various years through June 30, 2009. Ventures has an informal agreement to sub lease a portion of the office space. Future minimum lease payments under these leases are as follows:

Years ended June 30:	
2006	$ 83,125
2007	75,383
2008	76,769
2009	12,987
Total	$ 248,264

Total rent expense for the year ended June 30, 2005 was $77,878.

NOTE 7 - RELATED PARTY TRANSACTIONS

The University provides support to Ventures including salaries, bookkeeping and accounting services, and certain administrative costs as provided in the operating and service agreement. For the year ended June 30, 2005, the University provided support in the amount of $2,445,037 to Ventures.

During the year ended June 30, 2005, Ventures earned management fees from Illinois Emerging Technology Fund of $565,098. As of June 30, 2005, Ventures had receivables from Illinois Emerging Technology Fund of $45,721.

NOTE 8 - RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

Employees of Ventures are generally treated as employees of the University of Illinois and as such participate in the University retirement plan and other employee benefit plans to the extent they meet eligibility requirements of the University plans. Ventures does not make contributions to any retirement plan or other benefit plan for its employees. The University of Illinois makes any contributions due to the retirement plan and other benefit plans for Company employees.

NOTE 9 - SERVICES AND MANAGEMENT AGREEMENTS

As discussed in Note 5, Ventures has been hired to provide management services to the Illinois Emerging Technology Fund and receives a fee for these services.

During the year ended June 30, 2004, Ventures entered into service and management agreements with Chicago-ITEC and Illini-ITEC. Under the terms of the agreements, Ventures agreed to provide management services and administer the Itech funds through May 2005. The agreement is automatically extended on an annual basis there after. Ventures does not receive any fee for these services.

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*

The Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Managers
Illinois Ventures, LLC and Its Subsidiary

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Illinois Ventures, LLC and its Subsidiary as of and for the year ended June 30, 2005, and have issued our report thereon dated August 11, 2005. 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 Illinois Ventures, LLC and its Subsidiary's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Clifton Gunderson LLP

Peoria, Illinois
August 11, 2005