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

FINANCIAL AUDIT
For the Year Ended June 30, 2007

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, 2007

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ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
COMPANY OFFICIALS
June 30, 2007

Chairman of the Board	James Foght
Vice Chair	Warren Holtsberg
CEO and Managing Director	John Banta
Secretary	Thomas Bearrows
Treasurer (thru 2/1/07)	Stephen Rugg
Treasurer (2/1/07 thru current)	Walter Knorr
Principal Officer of the Sole Member (thru 12/31/06)	David Chicoine
Principal Officer of the Sole Member (1/16/07 thru current)	James Weyhenmeyer

<u>Board of Managers</u>:	<u>Ex Officio</u>:
Michael Tokarz	Stephen Rugg (thru 2/1/07)
Eric Gislason	Tom Bearrows
James Foght	John Banta
Warren Holtsberg	Steven Veazie
Lawrence Eppley	Walter Knorr (since 2/1/07)
Charles 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 60606

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 basic financial statements of Illinois Ventures, LLC and Its Subsidiary, a component unit of the University of Illinois and a component unit of the State of Illinois, as of and for the year ended June 30, 2007. 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, 2007, 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, Illinois Ventures' investments are presented at cost, or fair value based on recent relevant transactions in the security, 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 December 17, 2007 on our consideration of the Illinois Ventures, LLC and Its Subsidiary'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 8 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
December 17, 2007

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

(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, 2007. This discussion has been prepared by management and should be read in conjunction with the basic 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, LLC exists for the sole purpose of aiding and assisting the University of Illinois, and other regional research institutions and federal laboratories to provide support to facilitate commercialization of the technology originated or developed by faculty, staff, and/or students of the organizations 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, 2007. 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 2007, 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 Technologies Fund, LP, with a 1 percent ownership interest. Illinois Ventures GP, LLC has made capital commitments to Illinois Emerging Technologies Fund of $265,278. As of June 30, 2007, Illinois Ventures GP, LLC has made capital contributions to Illinois Emerging Technology Fund of $159,167.

FINANCIAL HIGHLIGHTS (CONTINUED)

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

During the year ended June 30, 2006 Illinois Ventures, LLC started leasing space in the Research Park in Champaign. Additional capital assets were acquired in connection with this additional office space.

Consolidated Statements of Net Assets

	2007	**2006**
Current assets	$ 910,983	$ 1,086,822
Capital assets	91,393	106,158
Investments	7,454,198	4,046,227
Total assets	$ 8,456,574	$ 5,239,207
Current liabilities	$ 585,646	$ 364,652
Net assets:		
Invested in capital assets	91,393	106,158
Restricted	316,190	0
Unrestricted - Reserved for minority interest in subsidiary	20,501	4,972
Unrestricted	7,442,844	4,763,425
Total net assets	7,870,928	4,874,555
Total Liabilities and Net Assets	$ 8,456,574	$ 5,239,207

The increased consultative and investment activity in start-up companies resulted in a similar increase in Service Income for fiscal 2007. During the year ended June 30, 2007 Illinois Ventures, LLC received grants through the University of Illinois from the State of Illinois Department of Commerce and Economic Opportunity of $1,007,460. Illinois Ventures, LLC received support from the University in addition to these grants of $2,699,519. Illinois Ventures, LLC received management fees of $530,556 from Illinois Emerging Technologies Fund.

FINANCIAL HIGHLIGHTS (CONTINUED)

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

	2007	**2006**
Service income	$ 4,237,535	$ 3,766,032
Operating expenses:		
Salaries	1,562,791	1,331,188
Office supplies	24,856	15,584
Professional fees	156,658	201,137
Office rent	123,783	113,719
Depreciation	41,044	33,794
Insurance	41,421	43,162
Telephone	85,638	74,286
Sponsorships	21,000	20,000
Subscriptions	15,656	14,195
Conferences	29,189	19,041
Travel, meals, and entertainment	106,802	93,835
Miscellaneous	100,972	84,528
Total operating expenses	2,309,810	2,044,469
Operating income	1,927,725	1,721,563
Nonoperating revenue	357,629	53,131
Net increase of unrealized appreciation on investments held	708,367	407,725
Increase in net assets	$ 2,993,721	$ 2,182,419

Condensed Consolidated Statements of Cash Flows

	2007	**2006**
Cash flows from operating activities	$ 2,189,856	$ 1,812,996
Cash flows from capital and related financing activities	(23,627)	(82,515)
Cash flows from noncapital financing activities	111,741	(77,218)
Cash flows from investing activities	(2,341,975)	(1,237,123)
Net cash flows	$ (64,005)	$ 416,140

(Unaudited)

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 investments in and advances to start-up companies could favorably impact Illinois Ventures, LLC's operations. Conversely, decreases in valuation 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, 2007

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$ 723,777	
Accounts receivable	156,645	
Prepaid and other assets	30,561	$ 910,983
CAPITAL ASSETS		91,393
INVESTMENTS		
Advances to start-up companies	869,443	
Equity investments in start-up companies	6,174,733	
Investment in Illinois Emerging Technology Fund	410,022	7,454,198
TOTAL ASSETS		$8,456,574

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 31,772	
Accrued expense	553,874	$ 585,646
NET ASSETS		
Invested in capital assets	91,393	
Restricted	316,190	
Unrestricted - Reserve for minority interest in subsidiary	20,501	
Unrestricted	7,442,844	7,870,928
TOTAL LIABILITIES AND NET ASSETS		$8,456,574

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, 2007

OPERATING REVENUES		
State of Illinois Economic Opportunity Grants	$ 1,007,460	
Support from the University of Illinois	2,699,519	
Management Fees	530,556	$ 4,237,535
OPERATING EXPENSES		
Salaries	$ 1,562,791	
Office supplies	24,856	
Professional fees	156,658	
Office rent	123,783	
Depreciation	41,044	
Insurance	41,421	
Telephone	85,638	
Sponsorships	21,000	
Subscriptions	15,656	
Conferences	29,189	
Travel, meals, and entertainment	106,802	
Miscellaneous	100,972	2,309,810
Operating income		1,927,725
NONOPERATING REVENUES		
Interest	100,105	
Income from investment in Illinois Emerging Technology Fund	257,524	357,629
NET INCREASE OF UNREALIZED APPRECIATION ON INVESTMENTS HELD		708,367
INCREASE IN NET ASSETS		2,993,721
NET ASSETS, BEGINNING OF YEAR		4,874,555
MINORITY INTEREST CAPITAL CONTRIBUTION		2,652
NET ASSETS, END OF YEAR		$ 7,870,928

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, 2007

CASH FLOWS FROM OPERATING ACTIVITIES		
Operating revenue	$ 4,151,013	
Payments to employees	(1,261,474)	
Payments to suppliers	(699,683)	
Net cash provided by operating activities		$2,189,856
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(26,279)	
Minority interest capital contribution	2,652	
Net cash used in capital and related financing activities		(23,627)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cost incurred to be reimbursed by other entities	(345,397)	
Cost reimbursed by other entities	457,138	
Net cash provided by noncapital financing activities		111,741
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances to start-up companies	(894,882)	
Equity investment in start-up companies	(1,450,397)	
Proceeds from shares redeemed	6,194	
Investment in Illinois Emerging Technology Fund	(53,057)	
Interest income	50,167	
Net cash used in investing activities		(2,341,975)
DECREASE IN CASH		(64,005)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		787,782
CASH AND CASH EQUIVALENTS, END OF YEAR		$ 723,777
NONCASH ACTIVITIES		
Accrued interest on advances to start-up companies		$ 49,938
Income from investment in Illinois Emerging Technology Fund		$ 257,524

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2007

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$1,927,725
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	41,044
Effects of changes in operating assets and liabilities:	
Prepaid and other assets	93
Accounts payable	6,199
Accrued expense	301,317
Deferred revenue	(86,522)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$2,189,856

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 and Champaign, 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 University of Illinois made an initial capital contribution to Illinois Ventures, LLC of $50,000. Ventures has continued to receive funding primarily from the following sources:

- Direct support from the University of Illinois.
- Tobacco settlement fund provided by the State of Illinois
- Grants through the University including grants from the Illinois Department of Commerce and Economic Opportunity.
- Management fees related to Illinois Emerging Technologies Fund.

The purpose of Ventures is to provide support to facilitate commercialization of various technologies including those originated or developed by faculty, staff, and/or students of the University of Illinois and other regional research institutions and federal laboratories 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. Ventures 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.

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

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 which range from 5 to 7 years. Annual depreciation is computed using the straight-line method.

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 Technologies 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 Technologies Fund is a private fund whose purpose is to invest in start-up companies. The fair value of the equity investment in start-up companies in the absence of readily ascertainable market values are valued taking into consideration recent relevant transaction in the security, developments concerning the issuing company subsequent to the acquisition of the securities, any financial data and projections of the issuing company provided and such other factors as are deemed relevant. Because of inherent uncertainties of valuation of investments in start-up companies, 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.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

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

Compensated Absences

It is Ventures' 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, the University of Illinois, 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. 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 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes bank deposit accounts and investments with an initial maturity of less than 90 days. At June 30, 2007, Ventures had repurchase agreements of $ 755,592 (maturing July 2, 2007) and the market value of the securities underlying this repurchase agreement was $763,998. 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. Ventures has no formal policy in regard to custodial credit risk for deposits. The Company does not have custodial credit risk as of June 30, 2007.

NOTE 3 - ACCOUNTS RECEIVABLE

During the year ended June 30, 2007, 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.

NOTE 4 - CAPITAL ASSETS

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

	Beginning Balance	Additions	Retirements	Ending Balance
Office equipment	$ 203,208	$ 26,279	$ -	$ 229,487
Less accumulated depreciation	97,050	41,044	-	138,094
Total	$ 106,158	$ (14,765)	$ -	$ 91,393

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 Technologies Fund). Ventures manages all of its investments. Ventures did not engage in any derivative transactions during the year ended June 30, 2007. Ventures does not participate in security lending transactions. The Company has unrealized losses on investments of $532,638 and unrealized gains on investments of $1,241,005, during the year ended June 30, 2007. The following is a summary of the carrying value of Ventures' investment portfolio as of June 30, 2007:

Advances to start-up companies:	
Convertible debt	$ 869,443
Equity investments in start-up companies:	
Preferred stock	4,467,291
Common stock	1,707,442
Investment in Illinois Emerging Technologies Fund	410,022
Total	$ 7,454,198

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. Ventures' investments in fixed income obligations and maturities at June 30, 2007 are illustrated below:

Maturities in Years

	Less Than 1	1-5	5-10	Greater Than 10	None Stated	Total
Convertible debt	$480,358	$338,890	$50,195	$ 0	$ 0	$869,443

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ventures' investments are in start-up companies that are developing new technologies. By their very nature these investments 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 Ventures' name. Ventures has no formal policy in regard to custodial credit risk. At June 30, 2007, Ventures' investments are all held by Ventures and have no custodial credit risk exposure.

NOTE 5 - INVESTMENTS (CONTINUED)

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of Ventures' investment in a single issuer. Ventures does not have a policy that limits the maximum amount that may be invested in any one security. Ventures' involvement with Illinois Emerging Technologies 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. Ventures had investments in the following companies that represent more than 5 percent of total assets.

	Advances to Start-up Companies	Equity Investment in Start-up Companies	Total
Advanced BioFuels, Inc.	$ -	$ 494,000	$ 494,000
Advanced Diamond Technologies, Inc.	-	502,535	502,535
DzymeTech, Inc.	100,867	426,381	527,248
iCyt Mission Technology, Inc.	50,195	441,722	491,917
Nanodisc, Inc.	237,068	227,737	464,805
One Llama Media, Inc.	1,847	642,350	644,197
Phoenix Coal Corporation	-	541,667	541,667
RiverGlass, Inc.	-	528,890	528,890
Tekion, Inc.	-	656,250	656,250

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rate will adversely affect the fair value of an investment. Ventures' investments are generally not exposed to foreign currency risk. As of June 30, 2007, Ventures was not exposed to foreign currency risk.

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.

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 Ventures' investment in these companies is uncertain.

NOTE 5 - INVESTMENTS (CONTINUED)

Investment in Illinois Emerging Technologies Fund

During the year ended June 30, 2005, Illinois Emerging Technologies Fund was created, with total capital commitments of $20,202,020. As of June 30, 2007, additional capital commitments have been received for $6,325,758, increasing the total commitments to $26,527,778. 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 $265,278 as of June 30, 2007. The following is a schedule of Illinois Ventures GP, LLC capital commitments to the fund as of June 30, 2007:

Capital calls to date	$ 159,167
Remaining capital commitment	106,111
Total capital commitment	$ 265,278

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

Illinois Ventures, LLC has been hired by Illinois Emerging Technologies 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 fiscal year 2011. 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:	
2008	$ 133,414
2009	69,632
2010	56,645
2011	18,881
2012	0
Total	$ 278,572

The minimum future rental payments have not been reduced by $48,000 of sublease rental income to be received in the future under non-cancellable subleases. Total rent expense for the year ended June 30, 2007 was $123,783, which is net of $38,400 of sublease rental income.

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, 2007, the University provided support in the amount of $2,699,519 to Ventures. Included in support provided was $11,850 of legal services. Included in accounts receivable is $13,650 due from the University.

During the year ended June 30, 2007, Ventures earned management fees from Illinois Emerging Technologies Fund of $530,556.

NOTE 8 - RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

Employees of Ventures are 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 Ventures' employees.

NOTE 9 - SERVICES AND MANAGEMENT AGREEMENTS

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

During the year ended June 30, 2005, 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 ITEC funds through May 2005. The agreement is automatically extended on an annual basis there after. The status of the Chicago-ITEC and the Illini-ITEC is uncertain as they have not received funding commitments for 2008. Ventures does not receive any fee for these services.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

As of June 30, 2007, Illinois Ventures has firm commitments to provide funding to nine startup companies for a total of $775,000.

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
Illinois Ventures, LLC and Its Subsidiary

As Special Assistant Auditors to 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, 2007, and have issued our report thereon dated December 17, 2007. 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 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 Illinois Ventures and Its Subsidiary's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 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 the Board of Managers and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Peoria, Illinois
December 17, 2007