

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

**COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2006**

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



**Clifton
Gunderson LLP**

Certified Public Accountants & Consultants

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2006**

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REPORTS ISSUED UNDER SEPARATE COVER

State of Illinois University of Illinois Research Park, LLC
Financial Audit for the Years Ended June 30, 2006 and 2005

**UNIVERSITY OF ILLINOIS
RESEARCH PARK LLC
COMPANY OFFICIALS
June 30, 2006**

Chair of Board	Edward L. McMillan
Vice Chair	Patrick F. Daly
Treasurer	Stephen K. Rugg
Secretary	Thomas R. Bearrows
Director	David L. Chicoine
Manager Research Park & Incubator Facilities	Scott Pickard

Board of Managers:

Patrick F. Daly	Dr. Kenneth Schmidt
Eric A. Gislason	Charles F. Zukoski
Edward L. McMillan	

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

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

UNIVERSITY OF ILLINOIS
AT URBANA-CHAMPAIGN

The Research Park at the University of Illinois

60 Hazelwood Drive
Champaign, IL 61820



MANAGEMENT ASSERTION LETTER

Clifton Gunderson LLP
Certified Public Accountants
301 SW Adams, Suite 900
Peoria, Illinois

December 12, 2006

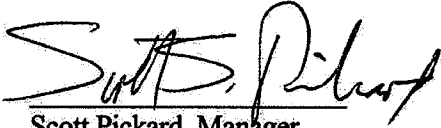
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Company. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Company's compliance with the following assertions during the two-year period ended June 30, 2006. Based on this evaluation, we assert that during the years ended June 30, 2006 and June 30, 2005, the Company has materially complied with the assertions below.

- A. The Company has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Company has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Company has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

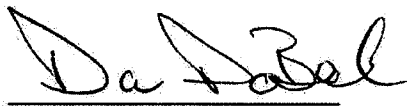
- E. The money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Research Park, LLC.


Scott Pickard, Manager


Stephen K. Rugg, Treasurer


Daniel DoBell, Accountant

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITORS' REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

	<u>Number of</u>	<u>This Report</u>	<u>Prior Report</u>
Findings		2	0
Repeated findings		0	0
Prior recommendations implemented or not reported		0	0

Details of findings are presented in a separately tabbed report section.

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
<i>FINDINGS (STATE COMPLIANCE)</i>		
06-01	10	Use of University Resources
06-02	12	University Subsidies

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on December 21, 2006. Attending were David Chicoine, Director, Scott Pickard, Manager Research Park & Incubator Facilities, Patrick Patterson, Controller Office of Business and Financial Services, Michael Godsell Assistant Director of University Accounting & Financial, Reporting Office of Business and Financial Services, Tom Kizziah, Office of the Auditor General, Beth Jordan, Partner, Clifton Gunderson LLP, and Leonard Hester, Senior Manager, Clifton Gunderson LLP. Responses to the recommendations were provided by Dan Dobell and Scott Pickard in an email dated December 15, 2006.

**Independent Accountants' Report on State Compliance, on
Internal Control Over Compliance, and on Supplementary
Information for State Compliance Purposes**

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Managers
University of Illinois
Research Park, LLC

Compliance

As Special Assistant Auditors for the Auditor General, we have examined University of Illinois Research Park, LLC's compliance with the requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (Audit Guide) as adopted by the Auditor General, during the years ended June 30, 2005 and 2006. The management of University of Illinois Research Park, LLC. is responsible for compliance with these requirements. Our responsibility is to express an opinion on University of Illinois Research Park, LLC's compliance based on our examination.

- A. University of Illinois Research Park, LLC has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. University of Illinois Research Park, LLC has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. University of Illinois Research Park, LLC has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by University of Illinois Research Park, LLC are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by University of Illinois Research Park LLC on behalf of the State or held in trust by University of Illinois Research Park, LLC have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about University of Illinois Research Park, LLC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on University of Illinois Research Park, LLC's compliance with specified requirements.

In our opinion, University of Illinois Research Park, LLC complied, in all material respects, with the aforementioned requirements during the years ended June 30, 2005 and 2006. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as findings 06-01, 06-02.

As required by the Audit Guide, an immaterial finding relating to an instance of noncompliance excluded from this report has been reported in a separate letter to your office.

Internal Control

The management of University of Illinois Research Park, LLC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered University of Illinois Research Park, LLC's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws or regulations that would be material in relation to one or more of the aforementioned requirements being examined 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 internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State finding as finding 06-01. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

Supplementary Information for State Compliance Purposes

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 year ended June 30, 2006, and have issued our report thereon dated December 12, 2006. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of University of Illinois Research Park, LLC. The 2006 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006 taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, University of Illinois Research Park, LLC's basic financial statements for the years ended June 30, 2005 and 2004. In our report dated August 2, 2005 and August 12, 2004 on the basic financial statements, we expressed an unqualified opinion on the basic financial statements. In our opinion, the 2005 and 2004 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited," is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2005 and 2004 taken as a whole.

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

Clifton Gunderson LLP

Peoria, Illinois
December 12, 2006

**Independent Auditors' 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 year ended June 30, 2006, and have issued our report thereon dated December 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University of Illinois Research Park, LLC'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. However, we noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the schedule of findings.

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*. However, we noted certain other matters which are reported as state compliance findings on the schedule of findings. We also noted certain other matters which we have reported to management of University of Illinois Research Park, LLC in a separate letter dated December 12, 2006.

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 Board of Managers and management, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Peoria, Illinois
December 12, 2006

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
SCHEDULE OF FINDINGS
CURRENT FINDINGS - STATE COMPLIANCE
June 30, 2006**

06-01 - Finding: Use of University Resources

University of Illinois Research Park, LLC. (Company) used University of Illinois (University) facilities, assets, services, and resources without consideration paid to the University. The University and the Company were not tracking the expenses incurred by the University on behalf of the Company until it was brought to their attention as a result of the audit. In addition, the transactions were not initially recorded on the financial statements of the Company.

The Company was formed on March 15, 2000 and is a component unit of the University of Illinois. The Company is recognized by the University as a University Related Organization (URO) pursuant to a contract between the University and the Company.

During the year ended June 30, 2006, the Company received legal services, management oversight, and the use of facilities for which the University failed to bill the Company or to charge the cost of these expenses to the Company's ledger account. As a result, the Company did not provide any consideration to the University for these resources provided by the University. Total resources used for the year ended June 30, 2006 were estimated to be \$158,332. This amount was subsequently recorded on the Company's Statement of Revenues, Expenses and Changes in Net Assets as revenue and as an expense.

University Guidelines, adopted November 30, 1982, (as amended September 10, 1997) by the Legislative Audit Commission, Section VI, Subsection E: Use of University Facilities state that the University may allow the University Related Organization to use University facilities, assets, services, and resources provided that such use is supported by consideration at rates charged other University users, if such charges are regularly made, or at the cost of furnishing such services if no internal charges are in existence.

Further, Subsection F, requires that the University budget processes or the contract will expressly identify all support provided to the URO. Revenue accounts will be maintained to identify all payments received from the URO for repayment of funds advanced and as reimbursement for the use of university assets, facilities or services. If the URO maintains separate financial records, companion entries will, of course, appear in these records as well.

Company personnel stated that the Company entered into an agreement adopted by the Board of Trustees on November 11, 2004 whereby the "University desires to make available to the LLC such support necessary to meet the University's objectives." Because the Company has no other sources of funding it is, therefore, necessary for the University to provide support to the Company.

Not providing consideration to the University for services the Company receives results in noncompliance with University Guidelines. (Finding Code No. 06-01)

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
SCHEDULE OF FINDINGS
CURRENT FINDINGS - STATE COMPLIANCE
June 30, 2006**

06-01 - Finding: Use of University Resources (Continued)

Recommendation:

We recommend that the Company work with the University to establish a system for tracking the use of University resources and that appropriate amounts be recorded on the Company's financial statements.

Company Response:

We agree with this finding and will work with the external auditors and the University to implement the recommendation for tracking the use of University resources so that appropriate amounts can be recorded in the financial statements.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
SCHEDULE OF FINDINGS
CURRENT FINDINGS - STATE COMPLIANCE
June 30, 2006**

06-02 - Finding: University Subsidies

University of Illinois Research Park, LLC (Company) failed to pay an amount owed to the University of Illinois (University) at June 30, 2005 within the next year.

University Guidelines adopted in November 30, 1982, (as amended September 10, 1997) by the Legislative Audit Commission Section VI, Subsection G. 3., state any university funds advanced to a University Related Organization (URO) or receivables from a URO shall be repaid to the source from which obtained within one year of the date of the transaction.

As of June 30, 2005, the Company owed the University \$280,578 related to infrastructure cost incurred for the iCyt building. This balance plus additional charges incurred in the year ended June 30, 2006 remained unpaid as of June 30, 2006.

Company personnel stated that because the Company is unfunded except by support from the University, there are no clear mechanisms for the Company to repay infrastructure costs incurred for Research Park development that are contractually the responsibility of the Company. In the past, infrastructure costs have been borne by the University.

By not paying the \$280,578 owed to the University as of June 30, 2005, the Company is not in compliance with University Guidelines 1982. (Finding Code No. 06-02)

Recommendation:

We recommend that the Company repay the amount owed to the University and that the Company not incur costs or commit to projects for which the Company does not have committed funding.

Company Response:

A memorandum of understanding has been produced between University of Illinois Research Park, LLC and the Office of the Vice President for Technology and Economic Development to fund the debt incurred by the Company for the infrastructure costs associated with the construction of the iCyt building in the Research Park. This money will be repaid by June 30, 2007. Funding sources external to the company have been and will be identified in subsequent and future construction projects.

SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedules of Cash
 - Schedules of Changes in Capital Assets (At Cost)
 - Comparative Schedule of Cash Receipts
 - Analysis of Significant Variations in Revenues and Expenses
 - Analysis of Significant Account Variations
 - Analysis of Accounts Receivable and Lease Receivable

- Analysis of Operations:
 - Company Functions and Planning Program
 - Average Number of Employees (Unaudited)
 - Service Efforts and Accomplishments (Unaudited)

The auditors' report that covers the Supplementary Information for State Compliance purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
SCHEDULES OF CASH
June 30, 2006 and 2005**

	<u>2006</u>		<u>2005</u>	
	<u>Interest Rate</u>	<u>Balance</u>	<u>Interest Rate</u>	<u>Balance</u>
CASH				
Busey Bank:				
Commercial checking account	None	\$ 1,000	None	\$ 1,000
Money market account	1.00%	<u>2,156</u>	0.35%	<u>2,141</u>
 TOTAL		 <u>\$ 3,156</u>		 <u>\$ 3,141</u>

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
SCHEDULES OF CHANGES IN CAPITAL ASSETS (AT COST)
Years Ended June 30, 2006 and 2005**

CAPITAL ASSETS - JUNE 30, 2004	\$ 257,853
Additions - purchases	<u>541,739</u>
 CAPITAL ASSETS - JUNE 30, 2005	 799,592
Additions - purchases	33,348
Adjust for iCyt building infrastructure	<u>(61,161)</u>
 CAPITAL ASSETS - JUNE 30, 2006	 <u>\$ 771,779</u>

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
COMPARATIVE SCHEDULES OF CASH RECEIPTS
Years Ended June 30, 2006, 2005, and 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
REVENUE RECEIVED FROM			
Service income and budget allocation:			
University of Illinois	\$ 261,497	\$ 251,544	\$ 306,217
Rental income	<u>106,313</u>	<u>59,236</u>	<u>67,104</u>
Total	<u>367,810</u>	<u>310,780</u>	<u>373,321</u>
 RECEIVABLES			
Beginning of year	106,048	156,115	165,328
End of year	(141,347)	(106,048)	(156,115)
Other adjustments:			
Loss on lease cancellation	-	(67,385)	-
Noncash service income for capital assets	-	(180,000)	-
Noncash service income for professional fees, salaries, and facilities	(217,026)	(32,851)	-
Amount received by University of Illinois	<u>(71,014)</u>	<u>-</u>	<u>(6,262)</u>
	<u>(323,339)</u>	<u>(230,169)</u>	<u>2,951</u>
Total cash receipts operating income	44,471	80,611	376,272
 INTEREST	<u>19</u>	<u>30</u>	<u>934</u>
 TOTAL CASH RECEIPTS	<u>\$ 44,490</u>	<u>\$ 80,641</u>	<u>\$ 377,206</u>

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
ANALYSIS OF SIGNIFICANT VARIATIONS IN
REVENUES AND EXPENSES
Years Ended June 30, 2006, 2005, and 2004**

	<u>2006</u>		<u>2005</u>		<u>2004</u>
OPERATING REVENUES					
Service income and budget allocation:					
University of Illinois	\$ 261,497	(A)	\$ 251,544	(A)	\$ 306,217
Rental income	<u>106,313</u>	(B)	<u>59,236</u>		<u>67,104</u>
Total operating revenues	<u>367,810</u>		<u>310,780</u>		<u>373,321</u>
OPERATING EXPENSES					
Salaries	115,569	(C)	300	(C)	240,898
Office supplies	-		237		8,789
Depreciation	29,270		19,964		18,255
Rent	5,523		-		-
Travel	-		-		8,406
Support for EnterpriseWorks	30,000	(D)	1,387	(D)	78,798
Support for Office of Vice Chancellor for Research	71,014		60,578	(E)	-
Professional fees	54,822	(F)	32,851	(F)	1,350
Legal fees	37,240	(G)	-		-
Office	61		107		-
Telecommunications	-		457		6,336
Subscriptions/dues/luncheons	-		1,477		9,139
Advertising	-		-	(H)	13,749
Other	<u>19,362</u>		<u>17,924</u>		<u>25,112</u>
Total operating expenses	<u>362,861</u>		<u>135,282</u>		<u>410,832</u>
OPERATING INCOME (LOSS)	4,949		175,498		(37,511)
NONOPERATING REVENUE (LOSS)					
Interest	19		30		934
Loss on lease cancellation	<u>-</u>		<u>(67,385)</u>	(I)	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 4,968</u>		<u>\$ 108,143</u>		<u>\$ (36,577)</u>

See page 20 for analysis.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
ANALYSIS OF SIGNIFICANT ACCOUNT VARIATIONS
June 30, 2006, 2005, and 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 3,156	\$ 3,141	\$ 3,460
Accounts receivable	<u>20,000</u>	<u>20,000</u> (J)	<u>-</u>
Total current assets	23,156	23,141	3,460
CAPITAL ASSETS	669,567 (K)	726,650 (K)	204,875
LEASE RECEIVABLE	<u>121,347</u> (L)	<u>86,048</u> (L)	<u>156,115</u>
TOTAL ASSETS	<u>\$ 814,070</u>	<u>\$ 835,839</u>	<u>\$ 364,450</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	<u>\$ 352,547</u>	<u>\$ 379,284</u> (M)	<u>\$ 16,038</u>
NET ASSETS			
Invested in capital assets	368,540	384,911	204,875
Unrestricted	<u>92,983</u>	<u>71,644</u>	<u>143,537</u>
Total net assets	<u>461,523</u>	<u>456,555</u>	<u>348,412</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 814,070</u>	<u>\$ 835,839</u>	<u>\$ 364,450</u>

See page 22 for analysis.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
ANALYSIS OF SIGNIFICANT VARIATIONS*
June 30, 2006**

Revenue and Expense

A) Change in Service Income and Budget Allocation University of Illinois

Service income and budget allocation University of Illinois increased by \$9,953 between June 30, 2005 and 2006 and decreased by \$54,673 between June 30, 2004 and June 30, 2005. The primary source of service revenue is support provided by the University of Illinois (University) for operations of the University of Illinois Research Park (UIRPLL). The amount of the support provided is linked to the amount of expense incurred by the UIRPLL. As expenses decline, the support provided by the University to pay for the expenses also declines. Based on recommendations from the Office of the Auditor General, the UIRPLL is recognizing the salaries, office space, and legal fees as an equal component of service revenue and as operating expenses in order for the financial statements to better reflect the actual costs associated with supporting the University of Illinois Research Park, LLC. The fiscal year ended June 30, 2006 is the first year these figures have been incorporated into the financial statements.

B) Increase in Rental Income

Additional land leases executed in the fiscal year ended June 30, 2006 resulted in an increase in rental income of \$47,077 from June 30, 2005 to June 30, 2006.

C) Change in Salaries Expense

Salaries expense increased from \$300 to \$115,569 between the years ended June 30, 2005 and June 30, 2006. This is, once again, due to recommendations by the Office of the Auditor General. The \$115,569 represents an estimate of the time spent by University employees on activities related to the University of Illinois Research Park, LLC. These activities include working with the private developer to market the research park, accounting, research park development, and miscellaneous.

The decrease in salaries expense from \$240,898 to \$300 from the fiscal year ended June 30, 2004 to June 30, 2005 represented the change in the operational organization of the University of Illinois Research Park, LLC from that of having a dedicated Executive Director to the Vice President of Technology and Economic Development assuming this function.

D) Increase in Support for EnterpriseWorks

The UIRPLL provided support for EnterpriseWorks of \$30,000 during the year ended June 30, 2006. This support represents an annual fee paid to the University of Illinois Division of Research Safety for assistance with laboratory safety and hazardous materials issues associated with the U of I's business incubator EnterpriseWorks. The decrease in support for EnterpriseWorks from June 30, 2004 to June 30, 2005 represents a change in the treatment of land lease payments as being recognized as support for the Vice Chancellor for Research.

* Significant variations are defined as changes greater than 20% and \$13,000.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
ANALYSIS OF SIGNIFICANT VARIATIONS*
June 30, 2006**

Revenue and Expense (Continued)

E) Changes in Support for the Office of the Vice Chancellor for Research

The increase in support for the Office of the Vice Chancellor for Research from the fiscal years-ended June 30, 2004 to June 30, 2005 represents a change in the treatment of how land lease payments were accounted for from being handled as support for EnterpriseWorks to being handled as support for the Office of The Vice Chancellor for Research.

F) Changes in Professional Fees

Professional fees increased from \$32,851 to \$54,822 between June 30, 2005 and June 30, 2006. These fees all represent expenses associated with amendments to the development agreement.

Professional fees increased by \$31,501 between the years ended June 30, 2004 and 2005. The increase was due to consulting fees paid to the developer in the year ended June 30, 2005 as required by the terms of amendments to the developers' agreement.

G) Increase in Legal Fees

Legal fees increased by \$37,240 from fiscal 2005 to 2006 which is due to the recommendation by the Office of the Auditor General to more fully recognize expenditures in order for the financial statements to more accurately represent the actual costs associated with operating the University of Illinois Research Park, LLC. This figure represents an estimate of the actual costs of providing legal counsel to the UIRPLLC and was provided by the Office of University Legal Counsel.

H) Decrease in Advertising Expense

Advertising decreased between June 30, 2004 and June 30, 2005 as the University has taken over providing operational support for the University of Illinois Research Park, LLC.

I) Loss on Lease Cancellation

The loss on lease cancellation recognized in the fiscal year ended June 30, 2005 represents the loss on the cancellation of land lease revenue associated with the sale of the building located on tract 205 (1816 South Oak, "I" Building).

* Significant variations are defined as changes greater than 20% and \$13,000.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
ANALYSIS OF SIGNIFICANT VARIATIONS*
June 30, 2006**

Assets and Liabilities

J) Increase in Accounts Receivable

Increase in accounts receivable from June 30, 2004 to June 30, 2005 represents funds owed to the UIRPLLC for expenses associated with the 9th amendment to the Development Agreement.

K) Changes in Capital Assets

Increase in Capital Assets from June 30, 2004 to June 30, 2005 came from leasehold improvements to the Research Park land in the form of telecommunications infrastructure improvements for the iCyt building in the Research Park. Subsequent adjustments to the actual cost of iCyt building telecommunications infrastructure caused the decrease in Capital Assets from the years-ended June 30, 2005 to June 30, 2006.

L) Lease Receivable

Lease receivable increased \$35,299 between June 30, 2005 and June 30, 2006. The increase is associated with the three additional land leases executed during the fiscal year between UIRPLLC and the developer of the research park. The decrease in leases receivable of \$70,067 from June 30, 2004 to June 30, 2005 is the result of the sale of the "I" building from the developer to the University.

M) Changes in Current Liabilities

The increase in Accounts Payable from June 30, 2004 to June 30, 2005 represents the amount owed to the University by the UIRPLLC for costs incurred and paid by the University for telecommunications infrastructure improvements.

* Significant variations are defined as changes greater than 20% and \$13,000.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
ANALYSIS OF ACCOUNTS RECEIVABLE AND LEASE RECEIVABLE
June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
ACCOUNTS RECEIVABLE - VICE CHANCELLOR FOR RESEARCH	<u>\$ 20,000</u>	<u>\$ 20,000</u>
LEASE RECEIVABLE - FOX/ATKINS	<u>\$ 121,347</u>	<u>\$ 86,048</u>

ACCOUNTS RECEIVABLE - VICE CHANCELLOR FOR RESEARCH

Reimbursement for costs associated with the 9th amendment to the development agreement between Fox/Atkins and the University of Illinois Research Park, LLC for the remaining costs associated with the moving of the fish ponds.

LEASE RECEIVABLE - FOX/ATKINS

The lease receivable was generated from six ground leases with Fox/Atkins, the developer of the Research Park. Although payments from Fox/Atkins did not start until July 2003, GASB No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, requires the Research Park to recognize rent income on a straight-line basis over the life of the leases.

ANALYSIS OF OPERATIONS

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
COMPANY FUNCTION AND PLANNING PROGRAM
Years Ended June 30, 2006 and 2005**

The Research Park was organized March 15, 2000 as an Illinois Limited Liability Company with an office located in Champaign, Illinois. The Research Park was organized by, and its sole member is, the Board of Trustees of the University of Illinois (University), 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 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.

The Research Park prepares an annual plan through its budgeting process which outlines the anticipated revenues, expenses, and capital expenditures for the fiscal year.

The Research Park's planning function is adequate for its intended purpose.

University of Illinois Research Park, LLC's office is located in Champaign, Illinois and its address is:

60 Hazelwood, MC-659
Champaign, Illinois 61820
(217) 333-8324

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
AVERAGE NUMBER OF EMPLOYEES
Years Ended June 30, 2006, 2005, and 2004**

(Unaudited)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
EMPLOYED BY UNIVERSITY OF ILLINOIS RESEARCH PARK, LLC	<u>1.20</u>	<u>1.20</u>	<u>2.00</u>

Represents the pro rata share of all EnterpriseWorks employees that work for the Research Park.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
SERVICE EFFORTS AND ACCOMPLISHMENTS
June 30, 2006**

(Unaudited)

ACCOMPLISHMENTS FOR FISCAL YEAR ENDED JUNE 30, 2006 (FY06)

On September 11, 2003, the Board of Directors approved certain amendments to the Operating Agreement (bylaws) of the University of Illinois Research Park, LLC and the Management Agreement between the University and the LLC. The effect of the changes to the two agreements was to broaden the jurisdiction of the LLC 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 the statute or contract.

At the end of FY06, there were 41 tenants employing over 1,100 people in the Research Park. Completion of an additional multi-tenant facility took place in FY06.

EnterpriseWorks, a 43,000 square foot incubator facility located in the Park completed its third full year of operations with nearly full occupancy. Six companies graduated from EnterpriseWorks in fiscal 2006.

FY06 RESEARCH PARK HIGHLIGHTS

Administration

- Completion of Research Park external audit.
- Completion of the Research Park and EnterpriseWorks internal audit working with auditors to implement recommended changes.

Development

- Executed three new land leases with the exclusive Research Park developer including a lease for a new hotel on the corner of First Street and St. Mary's Avenue.
- Finished construction on one multi-tenant building and began construction on an additional facility with expected completion in FY2007.

Marketing

- Implemented a new web site for both EnterpriseWorks and the Research Park.
- Worked with central campus and the developer on the presentations to companies considering locating to the Research Park.

**UNIVERSITY OF ILLINOIS
RESEARCH PARK, LLC
SERVICE EFFORTS AND ACCOMPLISHMENTS
June 30, 2006**

(Unaudited)

FY06 RESEARCH PARK HIGHLIGHTS (CONTINUED)

Incubation

- Completed third year of operations of EnterpriseWorks with nearly 100% occupancy. Graduated six tenants into the private sector during the fiscal year.
- Prepared a Business Continuity Plan per recommendation of the University Office of Internal Audit. Plan testing and implementation will occur in FY07.
- Completed an incubator self-evaluation to further refine policies and procedures.
- Fit out remaining laboratories in EnterpriseWorks reaching full laboratory capacity for existing HVAC system.
- Worked throughout the year with prospective tenants to develop business plans and secure appropriate office and laboratory space.
- Met with tenants monthly providing information about the latest resources available and updates on the EnterpriseWorks program and facility.