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

FINANCIAL AUDIT
For the Year Ended June 30, 2008

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

STATE OF ILLINOIS
ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
FINANCIAL AUDIT
For the Year Ended June 30, 2008

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ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
COMPANY OFFICIALS
June 30, 2008

Chairman of the Board	James Foght
Vice Chair	Warren Holtsberg
CEO and Managing Director	John Banta
Secretary	Thomas Bearrows
Treasurer	Walter Knorr
Principal Officer of the Sole Member (thru 12/31/07)	James Weyhenmeyer
Principal Officer of the Sole Member (01/01/08 thru current)	Avijit Ghosh

Board of Managers:

Michael Tokarz
James Foght
Warren Holtsberg
Lawrence Eppley
Kenneth D. Schmidt, M.D.
William P. Tai
James C. Tyree
Larry H Danziger
Ravishankar K Iyer

Ex Officio:

Thomas Bearrows
John Banta
Steven Veazie
Walter Knorr

Illinois Ventures, LLC offices are located at:

20 N. Wacker Drive
Suite 1201
Chicago, Illinois 60606

2001 S. First St
Suite 201
Champaign, IL 61820

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.

SUMMARY OF FINDINGS

The auditors identified a matter involving Illinois Ventures, LLC and Its Subsidiary's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 23 - 24 of this report, as finding 08-01, *Use of University Resources*. The auditors also consider finding 08-01 to be a material weakness.

EXIT CONFERENCE

Illinois Ventures, LLC and Its Subsidiary waived holding an exit conference in a communication dated January 6, 2009. A response to the finding was provided by John Banta via a communication on January 6, 2009.

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, 2008. 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, 2008, 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 January 7, 2009 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
January 7, 2009

(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, 2008. 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, 2008. 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 2008, 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, was formed May 8, 2001 and 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, 2008, Illinois Ventures GP, LLC has made capital contributions to Illinois Emerging Technology Fund of $185,695.

FINANCIAL HIGHLIGHTS (CONTINUED)

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

Consolidated Statements of Net Assets

	2008	**2007**
Current assets	$ 753,108	$ 910,983
Capital assets	71,914	91,393
Investments	10,760,326	7,454,198
Total assets	$ 11,585,348	$ 8,456,574
Current liabilities	$ 362,917	$ 585,646
Net assets:		
Invested in capital assets	71,914	91,393
Restricted	0	316,190
Unrestricted - Reserved for minority interest in subsidiary	60,708	20,501
Unrestricted	11,089,809	7,442,844
Total net assets	11,222,431	7,870,928
Total Liabilities and Net Assets	$ 11,585,348	$ 8,456,574

The Company experienced a decline in overall Service Income for fiscal 2008 due to decreased grant funding through the University from the State of Illinois Department of Commerce and Economic Opportunity. Illinois Ventures, LLC continued to receive support from the University in addition to these grants of $3,209,246. Illinois Ventures, LLC received management fees of $530,556 from Illinois Emerging Technologies Fund.

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

(Unaudited)

FINANCIAL HIGHLIGHTS (CONTINUED)

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

	2008	2007
Service income	$ 4,196,850	$ 4,237,535
Operating expenses:		
Salaries	1,610,085	1,562,791
Retirement and fringe benefits	399,275	-
Office supplies	18,759	24,856
Professional fees	192,446	156,658
Office rent	130,140	123,783
Depreciation	34,726	41,044
Insurance	36,621	41,421
Telephone	87,743	85,638
Sponsorships	50,250	21,000
Subscriptions	14,404	15,656
Conferences	31,381	29,189
Travel, meals, and entertainment	118,764	106,802
Miscellaneous	77,595	100,972
Total operating expenses	2,802,189	2,309,810
Operating income	1,394,661	1,927,725
Nonoperating revenue	917,606	357,629
Net increase of unrealized appreciation on investments held	1,037,907	708,367
Increase in net assets	$ 3,350,174	$ 2,993,721

Condensed Consolidated Statements of Cash Flows

	2008	2007
Cash flows from operating activities	$ 913,015	$ 2,189,856
Cash flows from capital and related financing activities	(13,918)	(23,627)
Cash flows from noncapital financing activities	(202,523)	111,741
Cash flows from investing activities	(1,350,615)	(2,341,975)
Net cash flows	$ (654,041)	$ (64,005)

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.

The state of the national economy can also have a favorable or unfavorable impact on the financial performance of Illinois Ventures, LLC as well as the performance of the start-up company investments. In times of economic downturn, the financial performance can be adversely impacted. In times of economic expansion, more opportunities for favorable results are possible.

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF NET ASSETS
June 30, 2008

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$ 69,736	
Accounts receivable	651,315	
Prepaid and other assets	32,057	$ 753,108
CAPITAL ASSETS		71,914
INVESTMENTS		
Advances to start-up companies	1,663,924	
Equity investments in start-up companies	7,882,258	
Investment in Illinois Emerging Technology Fund	1,214,144	10,760,326
TOTAL ASSETS		$11,585,348

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 149,189	
Accrued expense	213,728	$ 362,917
NET ASSETS		
Invested in capital assets	71,914	
Unrestricted - Reserve for minority interest in subsidiary	60,708	
Unrestricted	11,089,809	11,222,431
TOTAL LIABILITIES AND NET ASSETS		$11,585,348

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

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2008

OPERATING REVENUES		
State of Illinois Economic Opportunity Grants	$ 457,048	
Support from the University of Illinois	3,209,246	
Management Fees	530,556	$ 4,196,850
OPERATING EXPENSES		
Salaries	$ 1,610,085	
Retirement and fringe benefits	399,275	
Office supplies	18,759	
Professional fees	192,446	
Office rent	130,140	
Depreciation	34,726	
Insurance	36,621	
Telephone	87,743	
Sponsorships	50,250	
Subscriptions	14,404	
Conferences	31,381	
Travel, meals, and entertainment	118,764	
Miscellaneous	77,595	2,802,189
Operating income		1,394,661
NONOPERATING REVENUES		
Interest	140,012	
Income from investment in Illinois Emerging Technology Fund	777,594	917,606
NET INCREASE OF UNREALIZED APPRECIATION ON INVESTMENTS HELD		1,037,907
INCREASE IN NET ASSETS		3,350,174
NET ASSETS, BEGINNING OF YEAR		7,870,928
MINORITY INTEREST CAPITAL CONTRIBUTION		1,329
NET ASSETS, END OF YEAR		$11,222,431

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

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES		
Operating revenue	$ 3,513,903	
Payments to employees	$ (1,950,231)	
Payments to suppliers	(650,657)	
Net cash provided by operating activities		$ 913,015
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(15,247)	
Minority interest capital contribution	1,329	
Net cash used in capital and related financing activities		(13,918)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received on behalf of Chicago ITEC	20,530	
Cost incurred to be reimbursed by other entities	(453,525)	
Cost reimbursed by other entities	230,472	
Net cash used in noncapital financing activities		(202,523)
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances to start-up companies	(1,000,000)	
Equity investment in start-up companies	(375,831)	
Proceeds from shares redeemed	32,666	
Investment in Illinois Emerging Technology Fund	(26,528)	
Interest income	19,078	
Net cash used in investing activities		(1,350,615)
DECREASE IN CASH		(654,041)
CASH, BEGINNING OF YEAR		723,777
CASH, END OF YEAR		$ 69,736
NONCASH ACTIVITIES		
Accrued interest on advances to start-up companies		$ 120,934
Income from investment in Illinois Emerging Technology Fund		$ 777,594
Legal services, retirement and fringe benefits provided by the University of Illinois		$ 411,330

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2008

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 1,394,661
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	34,726
Effects of changes in operating assets and liabilities:	
Accounts receivable - grants	(271,617)
Prepaid and other assets	(1,496)
Accounts payable	96,887
Accrued expense	(340,146)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 913,015

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

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

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.
- 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 always readily transferable. Investment in Illinois Emerging Technologies Fund is a private fund whose purpose is to invest in start-up companies. A security, if traded on one or more national securities exchanges or traded on the NASDAQ National Market, will be valued at the average of the closing prices over the ten day period prior to the valuation date as reported in the Wall Street Journal or another nationally recognized publication or service that reports such data, taking into consideration any discount for lack of marketability that may exist as of June 30, 2008. 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.

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

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.

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 or when all applicable eligibility requirements have been met. Ventures has classified its service revenue, University support, and the Economic Opportunity grants 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, 2008, Ventures had repurchase agreements of $ 88,431 (maturing July 1, 2008) and the market value of the securities underlying this repurchase agreement was $95,881. 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, 2008.

NOTE 3 - ACCOUNTS RECEIVABLE

During the year ended June 30, 2008, Ventures incurred $379,698 of 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. In addition, as of June 30, 2008 the Company has an accounts receivable of $271,617 from the University in connection with State of Illinois Economic Opportunity Grants.

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Office equipment	$ 229,487	$ 15,247	$ -	$ 244,734
Less accumulated depreciation	138,094	34,726	-	172,820
Total	$ 91,393	$ (19,479)	$ -	$ 71,914

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, 2008. Ventures does not participate in security lending transactions. The Company has unrealized losses on investments of $618,244 and unrealized gains on investments of $1,656,151, during the year ended June 30, 2008. The following is a summary of the carrying value of Ventures' investment portfolio as of June 30, 2008:

Advances to start-up companies:	
Convertible debt	$ 1,548,251
Demand debt	115,673
Equity investments in start-up companies:	
Preferred stock	5,476,929
Common stock	2,405,329
Investment in Illinois Emerging Technologies Fund	1,214,144
Total	$ 10,760,326

NOTE 5 - INVESTMENTS (CONTINUED)

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, 2008 are illustrated below:

	Maturities in Years					
	Less Than 1	**1-5**	**5-10**	**Greater Than 10**	**None Stated**	**Total**
Convertible debt	$899,828	$764,096	$ 0	$ 0	$ 0	$1,663,924

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. A majority of 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, 2008, Ventures' 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 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
DzymeTech, Inc.	162,325	426,381	588,706
iCyt Mission Technology, Inc.	5,942	1,400,437	1,406,379
One Llama Media, Inc.	1,847	642,350	644,197
Phoenix Coal Corporation	-	633,966	633,966

NOTE 5 - INVESTMENTS (CONTINUED)

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 with the exception of a single investment in a company that is traded on the Toronto Stock Exchange. Based on management's assessment as of June 30, 2008, Ventures was not exposed to any substantial 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.

Investment in Illinois Emerging Technologies Fund

During the year ended June 30, 2004, Illinois Emerging Technologies Fund was created, with total capital commitments of $20,202,020. As of June 30, 2008, 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, 2008. The following is a schedule of Illinois Ventures GP, LLC capital commitments to the fund as of June 30, 2008:

Capital calls to date	$	185,695
Remaining capital commitment		79,583
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:		
2009	$	80,901
2010		67,914
2011		22,638
Total	$	171,453

The minimum future rental payments have not been reduced by $33,600 of sublease rental income to be received in the future under non-cancellable subleases. Total rent expense for the year ended June 30, 2008 was $130,140, which is net of $41,100 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, 2008, the University provided support in the amount of $3,209,246 to Ventures. Included in support provided was $12,055 of legal services and retirement and fringe benefits paid on Illinois Venture's employees of $399,275. Included in accounts receivable is $271,617 due from the University in connection with State of Illinois Economic Opportunity Grants.

During the year ended June 30, 2008, Ventures earned management fees from Illinois Emerging Technologies Fund of $530,556. Included in accounts receivable is $56,073 from Illinois Emerging Technologies Fund.

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 made an estimated $399,275 of contributions 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 2009. Ventures does not receive any fee for these services.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

As of June 30, 2008, Illinois Ventures has firm commitments to provide funding to five startup companies for a total of $125,000.

NOTE 11 – SUBSEQUENT EVENTS

During fiscal year 2008, financial market as a whole have incurred declines in values. Subsequent to fiscal year end, Illinois Ventures investment portfolio has also incurred a decline the values reported in the accompanying financial statements. However, because the value of individual investments fluctuate with market conditions the amount of investment losses that Illinois Ventures will recognize in its future financial statements, if any, cannot be determined.

The value of Phoenix Coal Corporation which is the only investment Illinois Ventures has that is publically traded has declined significantly since June 30, 2008. The value of Illinois Ventures investment in Phoenix Coal Corporation based on prices quoted on the Toronto Stock Exchange has fallen by approximately $ 550,000 through the end of October 2008.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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, 2008, and have issued our report thereon dated January 7, 2009. 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, and 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in finding 08-1 in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider finding 08-01 to be a material weakness.

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*.

We noted certain other matters which we have reported to management of Illinois Ventures LLC in a separate letter dated January 7, 2009.

Illinois Ventures, LLC and Its Subsidiary's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit Illinois Ventures, LLC and Its Subsidiary's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the 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
January 7, 2009

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
SCHEDULE OF FINDINGS
June 30, 2008

08-1 Finding: Use of University Resources

Illinois Ventures LLC, and its Subsidiary Illinois Ventures GP, LLC (Company) used University of Illinois (University) resources without consideration paid to the University and without recording support provided by the University on behalf of the Company.

Illinois Ventures LLC was formed on May 30, 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 fiscal years ended June 30, 2008 and 2007, the Company received legal services from the University without charge and recorded such in their accounting records. However, the Company had not recognized retirement or other benefits provided by the University for Company employees which are employed by the University and reimbursed by the Company. Estimated costs related to these benefits were $399,275 for fiscal year 2008. This amount was subsequently recorded on the Company's Statement of Revenues, Expenses and Changes in Net Assets as revenue and as an expense.

Governmental Accounting Standards Board Statement No. 24 *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* requires the Company to record support and expenses for on-behalf payments made by an entity to a third party on behalf of the Company.

University Guidelines adopted November 30, 1982, (Amended September 10, 1997) by the Legislative Audit Commission, Section VI, University Related Organizations, Subsection G(4): "The University budget and accounting processes must identify expressly all support provided 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 implementation of the previous recommendation was accomplished through adherence to the *University Resources Analysis for LAC Guidelines Compliance* dated June 30, 2008. The prior recommendation did not identify a requirement for entries for benefits in addition to those already reflected in the University's accounting process.

Not providing consideration or recognizing the University support received results in noncompliance with University Guidelines and would distort Company revenues and expenses. (Finding Code Nos. 08-1, 06-1)

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.

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
SCHEDULE OF FINDINGS
June 30, 2008

08-1 Finding: Use of University Resources

Company Response:
Implementation of the previous recommendation is accomplished through adherence to the *University Resources Analysis for LAC Guidelines Compliance* dated June 30, 2008, as well as the independent audit, neither of which heretofore identified a requirement for maintenance of separate entries for benefits in addition to those already reflected in the University's accounting process. The Company has adopted the recommendation and has taken steps to coordinate with the University to implement for the current and subsequent periods.