

**STATE OF ILLINOIS
ILLINOIS VENTURES, LLC
AND ITS SUBSIDIARY**

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

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

**STATE OF ILLINOIS
ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2006**

TABLE OF CONTENTS

	PAGE
COMPANY OFFICIALS	1
MANAGEMENT ASSERTION LETTER	2
 COMPLIANCE REPORT	
Summary	4
Auditor's Reports:	
Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes	5
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 <i>Government Auditing Standards</i>	8
 SCHEDULE OF FINDINGS	
Current Findings - State Compliance	10
Prior Finding Not Repeated	13
 SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES	
Summary	15
Fiscal Schedules and Analysis:	
Consolidated Schedules of Cash	16
Consolidated Schedules of Changes in Capital Assets (At Cost)	17
Comparative Schedule of Consolidated Cash Receipts	18
Analysis of Significant Variations in Revenues and Expenses	19
Analysis of Significant Account Variations	20
Analysis of Significant Variations	21
Analysis of Operations:	
Company Function and Planning Program	25
Average Number of Employees (Unaudited)	26
Service Efforts and Accomplishments:	
Service Efforts and Accomplishments (Unaudited)	27

REPORTS ISSUED UNDER SEPARATE COVER

State of Illinois Illinois Ventures, LLC and its Subsidiary
Financial Audit for the Year Ended June 30, 2006

**ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
COMPANY OFFICIALS
June 30, 2006**

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

Board of Managers:

Michael Tokarz
Eric Gislason
James Foght
Warren Holtsberg
Larry Eppley
Chip Zukoski
Kenneth D. Schmidt, M.D.
William P. Tai
James C. Tyree

Ex Officio:

Stephen Rugg
Thomas Bearrows
John Banta
Steve Veazie

Illinois Ventures, LLC offices are located at:

20 N. Wacker Drive
Suite 1201
Chicago, Illinois



20 North Wacker Drive
Suite 1201
Chicago, IL 60606
t. 312.251.0700
f. 312.251.0701
www.illinoisventures.com

MANAGEMENT ASSERTION LETTER

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

October 27, 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,

Illinois Ventures, LLC.



John Banta, Managing Director



Stephen K. Rugg, Treasurer

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	1
Repeated findings	0	0
Prior recommendations implemented or not reported	1	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>		
06-1	10	Use of University Resources
06-2	12	Time Sheets Not Required
<i>FINDINGS (PRIOR NOT REPEATED)</i>		
06-3	13	Bank Balances in Excess of FDIC Insurance Limits Were Not Protected by Collateral Pledged in the Name of the Company

EXIT CONFERENCE

A formal exit conference was not deemed to be necessary.

**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
Illinois Ventures, LLC and Its Subsidiary

Compliance

As Special Assistant Auditors for the Auditor General, we have examined Illinois Ventures, LLC and Its Subsidiary'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 Illinois Ventures, LLC and Its Subsidiary is responsible for compliance with these requirements. Our responsibility is to express an opinion on Illinois Ventures, LLC and Its Subsidiary's compliance based on our examination.

- A. Illinois Ventures, LLC and Its Subsidiary 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. Illinois Ventures, LLC and Its Subsidiary 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. Illinois Ventures, LLC and Its Subsidiary 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 Illinois Ventures, LLC and Its Subsidiary 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 Illinois Ventures, LLC and Its Subsidiary on behalf of the State or held in trust by Illinois Ventures, LLC and Its Subsidiary 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 Illinois Ventures, LLC and Its Subsidiary'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 Illinois Ventures, LLC and Its Subsidiary's compliance with specified requirements.

In our opinion, Illinois Ventures, LLC and Its Subsidiary 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 06-1, 06-2.

As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of Illinois Ventures, LLC and Its Subsidiary 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 Illinois Ventures, LLC and Its Subsidiary'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 findings as finding 06-1. 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 Illinois Ventures, LLC and Its Subsidiary's as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 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 Illinois Ventures, LLC and Its Subsidiary. 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, Illinois Ventures, LLC and Its Subsidiary's basic financial statements for the years ended June 30, 2005 and 2004. In our reports dated August 11, 2005 and August 5, 2004 on the basic financial statements, we expressed unqualified opinions 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, 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
October 27, 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
Illinois Ventures, LLC and Its Subsidiary

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Illinois Ventures, LLC and Its Subsidiary as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 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 Illinois Ventures, LLC and Its Subsidiary's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. 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. We also noted certain immaterial instances of internal control deficiencies, which we have reported to management of the Illinois Ventures, LLC and Its Subsidiary in a separate letter dated October 27, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*. 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 Illinois Ventures LLC in a separate letter dated October 27, 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
October 27, 2006

**ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
SCHEDULE OF FINDINGS
CURRENT FINDINGS - STATE COMPLIANCE
June 30, 2006**

06-1 Finding: Use of University Resources

Illinois Ventures LLC, and its Subsidiary Illinois Ventures GP, 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.

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 the year ended June 30, 2006, the Company received legal services, and used space for which the University failed to bill the Company or to charge the cost of these expenditures 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 which there were no charges for the year ended June 30, 2006 were estimated to be \$16,350. 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 (Amended September 10, 1997) by the Legislative Audit Commission, Section VI, University Related Organizations, 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 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 University Counsel serves as an unpaid member of the Board of Managers of the Illinois Ventures LLC, and provides legal guidance in that capacity. As such, such guidance was not recognized as being entitled to consideration.

Not providing consideration to the University for services the Company receives results in noncompliance with University Guidelines. (Finding Code No. 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
CURRENT FINDINGS - STATE COMPLIANCE
June 30, 2006**

06-1 Finding: Use of University Resources (Continued)

Company Response:

The Company has, in cooperation with the University, established a method of tracking and charging the use of University resources, and has adjusted fiscal year 2006 financial statements accordingly. In subsequent years, the cost of University resources will be identified and properly reflected in the Company's financial statements.

**ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
SCHEDULE OF FINDINGS
CURRENT FINDINGS - STATE COMPLIANCE
June 30, 2006**

06-2 Finding: Time Sheets Not Required

The Company did not require all employees to submit time sheets as required by the State Officials and Employees Ethics Act (Act).

The Act required the Illinois Board of Higher Education (IBHE), with respect to State employees of public universities, to adopt and implement personnel policies. The Act (5 ILCS 430/5-5(c)) states, "The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour; contractual State employees may satisfy the time sheets requirement by complying with the terms of their contract, which shall provide for a means of compliance with this requirement." The IBHE adopted personnel policies for public universities on February 3, 2004 in accordance with the Act. The Company has not incorporated these policies into the Company's policies.

We noted the Company's employees, who are paid a salary, did not submit time sheets in compliance with the Act.

Company personnel stated that they were not aware of this requirement.

By not requiring appropriate time sheets from its salaried employees, the Company is not in compliance with the Act. (Finding Code No. 06-2)

Recommendation:

We recommend the Company amend its policies to require all employees submit time sheets in compliance with the Act.

Company Response:

We intend to comply entirely with the solution currently being developed by the University in collaboration with the Office of the Auditor General.

**ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
SCHEDULE OF FINDINGS
PRIOR FINDING NOT REPEATED - STATE
June 30, 2006**

06-3 Finding: Bank Balances in Excess of FDIC Insurance Limits Were Not Protected by Collateral Pledged by the Bank in the Name of the Company

During our prior examination of cash balances, we noted that the Company did not request from their banks securities to collateralize bank balances in excess of the FDIC insurance limit of \$100,000. (Finding Code No. 04-1)

At June 30, 2006, the Company had sufficient collateral pledged for balances in excess of FDIC insurance.

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

- 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.

**ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED 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	\$ (8,211)	None	\$ (9,119)
Repurchase agreement	4.83%	795,993	-	-
Money market account	-	<u> -</u>	0.7700%	<u>380,761</u>
 TOTAL		 <u>\$ 787,782</u>		 <u>\$ 371,642</u>

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED SCHEDULES OF CHANGES IN CAPITAL ASSETS (AT COST)
Years Ended June 30, 2006 and 2005

CAPITAL ASSETS - JUNE 30, 2004	\$ 99,501
ADDITIONS - PURCHASES	<u>19,713</u>
CAPITAL ASSETS - JUNE 30, 2005	119,214
ADDITIONS - PURCHASES	<u>83,994</u>
CAPITAL ASSETS - JUNE 30, 2006	<u>\$ 203,208</u>

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
COMPARATIVE SCHEDULE OF CONSOLIDATED CASH RECEIPTS
Years Ended June 30, 2006, 2005, and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
CASH RECEIPTS			
University of Illinois support	\$ 3,274,807	\$ 2,445,037	\$ 1,997,497
Management fee from Illinois Emerging Technology Fund	561,397	565,098	175,594
Other	-	-	6,000
Reimbursements of legal and other costs	16,350	-	39,898
Interest	<u>36,181</u>	<u>5,607</u>	<u>6,893</u>
 TOTAL CASH RECEIPTS	 <u>\$ 3,888,735</u>	 <u>\$ 3,015,742</u>	 <u>\$ 2,225,882</u>

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
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	\$ 3,766,032	\$ 3,010,135	\$ 2,173,091	(A)
OPERATING EXPENSES				
Salaries	1,331,188	1,000,615	845,454	(B)
Office supplies	15,584	17,862	14,659	
Professional fees	201,137	160,229	148,546	(C)
Office rent	113,719	77,878	28,925	(D)
Depreciation	33,794	24,363	23,461	
Insurance	43,162	44,417	34,557	
Telephone	74,286	62,025	57,917	
Sponsorships	20,000	5,000	15,289	
Subscriptions	14,195	13,845	-	
Conferences	19,041	26,877	11,343	
Travel, meals, and entertainment	93,835	93,695	75,410	
Miscellaneous	84,528	47,236	34,015	(E)
	<u>2,044,469</u>	<u>1,574,042</u>	<u>1,289,576</u>	
OPERATING INCOME	1,721,563	1,436,093	883,515	
NONOPERATING REVENUES	53,131	52,211	51,016	
NET INCREASE OF UNREALIZED APPRECIATION ON INVESTMENTS HELD	<u>407,725</u>	<u>-</u>	<u>-</u>	(F)
INCREASE IN NET ASSETS	<u>\$ 2,182,419</u>	<u>\$ 1,488,304</u>	<u>\$ 934,531</u>	

See page 21 for analysis.

**ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
ANALYSIS OF SIGNIFICANT ACCOUNT VARIATIONS
June 30, 2006, 2005, and 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>	
ASSETS				
CURRENT ASSETS				
Cash	\$ 787,782	\$ 371,642	\$ 156,731	(G)
Accounts receivable	268,386	191,168	48,162	(H)
Prepays and other assets	<u>30,654</u>	<u>29,009</u>	<u>27,511</u>	
Total current assets	<u>1,086,822</u>	<u>591,819</u>	<u>232,404</u>	
CAPITAL ASSETS	<u>106,158</u>	<u>55,958</u>	<u>60,608</u>	(I)
INVESTMENTS				
Advances to start-up companies	557,791	1,041,290	659,261	
Equity investment in start-up companies	3,388,995	1,239,930	614,911	
Investment in Illinois Emerging Technology Fund	<u>99,441</u>	<u>67,028</u>	<u>19,914</u>	
Total investments	<u>4,046,227</u>	<u>2,348,248</u>	<u>1,294,086</u>	(J)
TOTAL ASSETS	<u>\$ 5,239,207</u>	<u>\$ 2,996,025</u>	<u>\$ 1,587,098</u>	
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 25,573	\$ 73,904	\$ 48,971	(K)
Accrued expense	252,557	231,464	338,119	(L)
Deferred revenue	<u>86,522</u>	<u>-</u>	<u>-</u>	(M)
Total current liabilities	<u>364,652</u>	<u>305,368</u>	<u>387,090</u>	
NET ASSETS				
Reserved for minority interest in subsidiary	4,972	3,046	1,007	
Invested in capital assets	106,158	55,958	60,608	
Unrestricted	<u>4,763,425</u>	<u>2,631,653</u>	<u>1,138,393</u>	
Total net assets	<u>4,874,555</u>	<u>2,690,657</u>	<u>1,200,008</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,239,207</u>	<u>\$ 2,996,025</u>	<u>\$ 1,587,098</u>	

See page 22 for analysis.

ILLINOIS VENTRUES, LLC AND ITS SUBSIDIARY
ANALYSIS OF SIGNIFICANT VARIATIONS
June 30, 2006, 2005, and 2004

The scope of this analysis of significant variations explains any increases or decreases which vary by more than 20% and is also \$ 20,000 more or less than the prior year.

Revenues and Expenses

A. Operating Revenues

Operating revenues increased by \$755,897 between the years ended June 30, 2005 and June 30, 2006. The company received support from the University of Illinois of \$2,445,037 during the year ended June 30, 2005. The support received increased to \$3,204,634 during the year ended June 30, 2006 for a net increase of \$759,597.

Operating revenues increased by \$837,044 between the years ended June 30, 2004 and June 30, 2005. The company received a support from the University of Illinois of \$1,997,497 during the year ended June 30, 2004. The support received increased to \$2,445,037 during the year ended June 30, 2005 for a net increase of \$447,540. In addition, the company earned higher management fees from Illinois Emerging Technologies Fund during the year ended June 30, 2005. This was a result of an increase in capital commitments from investors received by the Fund, which provides the basis for the computation of the management fee. Management fees increased from \$175,594 during the year ended June 30, 2004 to \$565,098 during the year ended June 30, 2005 for a net increase of \$389,504.

B. Salaries

Salaries increased by \$330,573 between the years ended June 30, 2005 and June 30, 2006. The increase can be attributed to annual salary adjustments to existing personnel, the addition of two new directors, as well as an increased utilization of a student internship program.

C. Professional Fees

Professional fees increased by \$40,908 between the years ended June 30, 2005 and June 30, 2006. The increase can be attributed to the increased level and complexity of the investment activity. The increased investment activity required the Company to incur additional legal expense associated with the acquisition of securities.

D. Office Rent

Rent expense increased by \$35,841 between the years ended June 30, 2005 and June 30, 2006. During the year ending June 30, 2006, the Company entered into a new lease agreement for office space in Champaign.

Rent expense increased by \$48,953 between the years ended June 30, 2004 and June 30, 2005. During the year ending June 30, 2004, the Company entered into a lease agreement for office space in Chicago near the end of the year. The expense for 2004 reflected a partial year of rent expense. The year ending June 30, 2005 included a full-year of rent expense for the Chicago lease.

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
ANALYSIS OF SIGNIFICANT VARIATIONS
June 30, 2006, 2005, and 2004

Revenues and Expenses (Continued)

E. Miscellaneous

Miscellaneous expense increased by \$37,292 between the years ended June 30, 2005 and June 30, 2006. The increase can be attributed to higher occupancy costs associated with the new lease agreement in Champaign, including higher utility and information technology consulting services. In addition, miscellaneous expense includes the write-off of an uncollectible account receivable of \$20,561 during the year ended June 30, 2006.

F. Net Increase of Unrealized Appreciation of Investments Held

Net increase of unrealized appreciation of investments held increased by \$407,725 between the years ended June 30, 2005 and June 30, 2006. The unrealized appreciation is determined by management by considering recent relevant transactions in the securities, developments concerning the issuing company subsequent to the acquisition of the securities, any financial data and projections of the issuing company provided to management, and such other factors deemed relevant. During the years ended June 30, 2005 and prior, management did not believe that conditions warranted the recording of unrealized appreciation of investments held.

Assets and Liabilities

G. Cash

Cash increased by \$416,140 between the years ended June 30, 2005 and June 30, 2006, and cash increased by \$214,911 between the years ended June 30, 2004 and June 30, 2005. During the normal course of business, the Company will experience increases in its cash balance as it receives management fee revenue and University of Illinois support, and will experience decreases in its cash balance as it pays operating expenses and makes investments in start-up companies. Depending on the timing of the transactions, the cash balance may show temporary fluctuations with the recent trend being increases in cash during the years ended June 30, 2005 and 2006.

H. Accounts Receivable

Accounts receivable increased by \$77,218 between the years ended June 30, 2005 and June 30, 2006, and accounts receivable increased by \$143,006 between the years ended June 30, 2004 and June 30, 2005.

Accounts receivable consist of legal and other costs incurred on behalf of other entities for which the Company intends to seek reimbursement. A majority of the legal fees are incurred in connection with investment transactions. Due to the higher level of investment activity, there was a corresponding increase in accounts receivable during the years ended June 30, 2006 and 2005.

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
ANALYSIS OF SIGNIFICANT VARIATIONS
June 30, 2006, 2005, and 2004

Assets and Liabilities (Continued)

I. Capital Assets

Capital assets increased by \$50,200 between the years ended June 30, 2005 and June 30, 2006. During the year ended June 30, 2006, the Company acquired capital assets in connection with its new office lease in Champaign.

J. Investments

Investments (including Advances to start-up companies and Equity investment in start-up companies) increased by \$1,697,979 between the years ended June 30, 2005 and June 30, 2006.

Investments (including Advances to start-up companies and Equity investment in start-up companies) increased by \$1,054,162 between the years ended June 30, 2004 and June 30, 2005.

The Company's goal is to provide both consulting and financial support to start-up companies. During the year ended June 30, 2006 and 2005, with the additional funding received, the Company was able to expand the amount of support it could provide to potential start-up companies.

K. Accounts Payable

Accounts payable decreased by \$48,331 between the years ended June 30, 2005 and June 30, 2006. The decrease can be attributed to a reduction in professional fees payable as of June 30, 2006 compared to June 30, 2005.

Accounts payable increased by \$24,933 between the years ended June 30, 2004 and June 30, 2005. The increase can be attributed to additional professional fees payable as of June 30, 2005 compared to June 30, 2004.

L. Accrued Expense

Accrued expenses decreased by \$106,655 between the years ended June 30, 2004 and June 30, 2005. The decrease in accrued expense is primarily attributable to accrued bonuses. Bonuses awarded as of June 30, 2004 and not paid were \$266,465. As of June 30, 2005, accrued bonuses were \$153,886.

M. Deferred Revenue

Deferred revenue increased by \$86,522 between the years ended June 30, 2005 and June 30, 2006. During the year ended June 30, 2006, the Company received grant revenue specifically designated for investment in startup companies. The balance in deferred revenue represents unexpended grant funds as of June 30, 2006 that are anticipated to be utilized during the year ending June 30, 2007.

ANALYSIS OF OPERATIONS

**ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
COMPANY FUNCTION AND PLANNING PROGRAM
Years Ended June 30, 2006 and 2005**

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

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

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

Ventures' planning function is adequate for its intended purpose.

Illinois Ventures, LLC's office address and telephone number are:

20 N. Wacker Drive
Suite 1201
Chicago, Illinois 60606

(312) 258-0705

**ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
AVERAGE NUMBER OF EMPLOYEES
Years Ended June 30, 2006, 2005, and 2004**

(Unaudited)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
EMPLOYED BY ILLINOIS VENTURES, LLC			
Management	4.00	4.00	4.00
Office	<u>2.00</u>	<u>2.00</u>	<u>2.00</u>
Total employed by Illinois Ventures, LLC	6.00	6.00	6.00
EMPLOYED BY THE UNIVERSITY OF ILLINOIS	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	<u>6.00</u>	<u>6.00</u>	<u>6.00</u>

Some of Illinois Ventures, LLC's officers and directors are employed by the University.

**ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
SERVICE EFFORTS AND ACCOMPLISHMENTS
Year Ended June 30, 2006**

(Unaudited)

Accomplishments since inception: Since inception, 502 opportunities have been evaluated through the combined auspices of Illinois Ventures, LLC and its affiliated entities, the Illinois Emerging Technology Fund and the Chicago and Illini ITECs.

Consultative support and development has begun on behalf of 39 companies, and a total of \$13.1 million of funding has been provisioned to portfolio companies through Illinois Ventures, LLC and its affiliated entities. Substantial additional third-party support has been leveraged on behalf of these projects, including over \$85 million in private investment and \$13 million in federal grant funding.

Fiscal 2006 Illinois Ventures, LLC Highlights:

Established sustainable, repeatable mechanism for value creation

- Identified/assessed 214 opportunities for business development (285% of goal)
- Successfully closed seven seed fund financing events (140% of goal)
- Successfully closed nine follow-on financing events (225% of goal)

Continued development of a committed investment vehicle

- Completed initial ten portfolio commitments
- Obtained initial markup events

Demonstrated improved ROI on public resource

- Advanced ratio of total invested funds versus public funding to over 200%
- Offset ~30% of non-investment budget through private revenue sources

Attained high stakeholder satisfaction

- Achieved > 90% “Meets” or “Exceeds expectations” responses through satisfaction survey of internal and external stakeholders