VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2007

APA
Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Biotechnology Research Partnership Authority for the year ended June 30, 2007 found:

- the accompanying financial statements present fairly, in all material respects, the Authority's financial position as of June 30, 2007, and the results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles;

- no material weaknesses in internal control over financial reporting; and

- no instances of noncompliance with laws and regulations that are required to be reported.

-T A B L E O F C O N T E N T S-

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Our discussion and analysis of the Virginia Biotechnology Research Partnership Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Authority's financial statements and notes to financial statements.

About the Authority

The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth) created pursuant to Chapter 946, Virginia Acts of Assembly of 1993, as amended by Chapter 731, Virginia Acts of Assembly of 2000, and Chapter 788, Virginia Acts of Assembly of 2005. The Authority provides a mechanism for financing construction of the Virginia Biotechnology Research Park (Research Park) through bonds and other authorized means. The Park Corporation (Corporation) is an IRS Code Section 501(c)(3) corporation and is organized and operated exclusively for scientific, educational, and charitable purposes. The results of operations of the Corporation are presented in blended format in the financial statements of the Authority. Corporation revenues and expenses each totaled $46,360 for fiscal year 2007.

On March 26, 2005, the 2005 Session of the Virginia General Assembly passed House Bill [HB] 1801 amending the original legislation that created the Authority. HB1801 clarifies certain powers of the Authority that can be used throughout the Commonwealth and expands the Board of Directors of the Authority in the event of such initiatives that may be funded by the Commonwealth of Virginia. Effective July 1, 2005, these changes renamed the Authority to the Virginia Biotechnology Research Partnership Authority.

The Board and staff of the Authority manage daily operations of the Research Park. The Research Park is a life sciences community adjacent to Virginia Commonwealth University that houses companies, research institutes, non-profits, and government laboratories on a 34-acre campus in downtown Richmond, Virginia. The mission of the Authority is to advance life sciences by promoting scientific research and economic development through the attraction and creation of new jobs and companies.

The Authority does not have taxing powers. Operations are funded from lease and ancillary service revenues. Bond issuances, long-term notes payable, and appropriations from the Commonwealth and contract support payments from Virginia Commonwealth University have funded the acquisition and construction of capital assets. The Authority has also received funding in previous years through bonds issued by the City of Richmond. The Research Park, as of June 30, 2007, was occupied by 32 private and non-profit companies, four state laboratories, and five research institutes/administrative functions of Virginia Commonwealth University, filling approximately 1,000,000 square feet of laboratory and office space in eight buildings and employing more than 2,000 researchers, scientists, engineers, and support personnel.

In 2005, the Research Park assembled and sold land within the Research Park to Philip Morris USA for the development of a new global Center for Research and Technology. The Center's capital cost was $350 million and will ultimately employ approximately 600 individuals. This is the largest single investment in the history of the Research Park and the largest single private sector investment in the City of Richmond. With completion of the Philip Morris USA Center for Technology, the Research Park will be two-thirds developed.

Biotech Eight is a new multi-tenant building in the Research Park. It will be located on 5th Street in the current location of the former Biotech Four. Biotech Eight will be three floors with 76,000 square feet of space and will have an adjacent 299-space parking structure. The project is owned by the Biotech Eight, LLC. Construction began in the Fall of 2006 and is due to be completed in the first quarter of 2008.

When fully developed, the Research Park will contain approximately 1.5 million square feet of research, office and laboratory space in 13-15 buildings and employ 3,000 scientists, researchers, engineers and technicians, working in fields that include drug development, medical diagnostics and devices, biomedical engineering, environmental biosciences, forensics, and laboratory services.

The Research Park is not limited to its 34-acre downtown campus. Recognizing the growth of this dynamic industry, the Research Park has developed partnerships with neighboring Henrico and Chesterfield counties extending the reach of the Research Park to future satellite parks that can accommodate larger companies on suburban campuses in the Greater Richmond area.

Authority Highlights

- The Research Park purchased two parcels of property from Virginia Commonwealth University during the 2006 fiscal year. These properties are important in that they are the remaining parcels needed to give the Research Park the entire ownership of land in the block bounded by East Leigh, North 7th, North Jackson and North 8th Streets. This will enable the Research Park to hold this property for a future build-to-suit building site.

- Philip Morris USA began to occupy Biotech Nine, a 450,000 square foot facility in the Research Park in June 2007. The $350 million dollar complex will be home to approximately 600 employees. The facility opened in the spring of 2007.

- Virginia Biotechnology Research Partnership Authority has entered into a partnership called Biotech Eight LLC. The Biotech Eight LLC is a for-profit development entity that the Virginia Biotechnology Research Park will have approximately a 40 percent equity interest in. The Research Park contributed land and cash and will also enter into a management agreement for property management and leasing. The private sector partners arranged for construction and permanent funding of the project, on the strength of their equity contributions and personal guarantees. The total cost of the project is expected to be approximately $22 million and the first tenants are scheduled to move in during the first quarter of 2008.

Overview of Annual Financial Statements

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements. The MD&A represents management's examination and analysis of the financial condition and performance of the Authority. The financial statements of the Authority are presented using the accrual method of accounting. The financial statements themselves consist of the Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; the Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Assets presents the financial position of the Authority including information about the type and amount of resources and obligations at June 30, 2007. The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of the Authority's operating and non-operating activities and provides information as to changes to the net assets. The Statement of Cash Flows presents changes in cash and cash equivalents, as a result of operational, non-operational, and financing activities. The Authority currently has no investing activities and as such this section is not presented.

The Notes to the Financial Statements provide required disclosures and other pertinent information necessary to provide a reader of the financial statements a complete understanding of the data being presented. The notes are comprised of information about the Authority's accounting policies, significant account balances, obligations, commitments, contingencies, and subsequent events.

CONDENSED FINANCIAL INFORMATION

Statement of Net Assets

The Statement of Net Assets presents the financial position of the Authority at the end of the fiscal year. The statement includes all assets and liabilities of the Authority. Net assets are an indicator of the current fiscal health of the organization and the Authority's financial position over time. A condensed summary of the Authority's assets, liabilities, and net assets at June 30, 2007 and 2006 are as follows:

Statement of Net Assets, as of June 30, 2007 and 2006

	2007	2006	Value of Change	Percentage of Change
Assets:				
Current and other assets	$ 52,194,714	$ 54,495,620	$ (2,300,906)	(4%)
Capital assets, net	22,675,864	23,402,595	(726,731)	(3%)
Total assets	$ 74,870,578	$ 77,898,215	$ (3,027,637)	(4%)
Liabilities:				
Current and other liabilities	$ 4,342,812	$ 4,493,026	$ (150,214)	(3%)
Long-term liabilities	58,681,482	61,698,289	(3,016,807)	(5%)
Total liabilities	$ 63,024,294	$ 66,191,315	$(3,167,021)	(5%)
Net assets:				
Invested in capital assets, net	$ 10,900,483	$ 11,381,905	$ (481,422)	(4%)
Unrestricted	945,800	324,995	620,805	191%
Total net assets	$ 11,846,283	$ 11,706,900	$ 139,383	1%

The Authority's total assets decreased four percent due mainly to the transfer of land for Biotech Eight, LLC and reduction of the capital lease receivable related to Biotech Six. The Authority's total liabilities decreased five percent due mainly to the forgiveness of the contract debt for the design costs of Biotech Eight and payments on bonds. The total assets of the Authority exceeded its liabilities by $11.8 million.

Statement of Revenues, Expenses, and Changes in Net Assets

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Authority's operations and can be used to determine whether the Authority's fiscal condition has improved or worsened during the year. A summary of the Authority's revenues, expenses, and changes in net assets for the year ended June 30, 2007 and 2006 are as follows:

Revenues, Expenses, and Changes in Net Assets

	2007	2006	Value of Change	Percentage of Change
Operating revenues:				
Rental income	$ 2,972,184	$ 2,802,539	$ 169,645	6%
Parking income	307,869	339,899	(32,030)	(9%)
University and other support	46,360	45,010	1,350	3%
Business support services	68,668	20,400	48,268	237%
Development Fee	15,000	-	15,000	100%
Interest income	44,830	41,332	3,498	8%
Other income	65,474	48,998	16,476	34%
Total operating revenues	3,520,385	3,298,178	222,207	7%
Operating expenses:				
Salaries and benefits	949,132	851,552	97,580	11%
Marketing and promotion	71,628	65,442	6,186	9%
Occupancy costs	809,786	775,233	34,553	4%
Administrative	173,286	122,551	50,735	41%
Public Safety Building – City of Richmond	-	1,879	(1,879)	(100%)
Depreciation expense	549,088	511,051	38,037	7%
Bad debt expense	-	-	-	0%
Other	8,944	1,065	7,879	740%
Total operating expenses	2,561,864	2,328,773	233,091	10%
Operating income/(loss)	958,521	969,405	(10,884)	(1%)
Non-operating revenues and expenses	(819,138)	(658,303)	(160,835)	24%
Change in net assets	139,383	311,102	(171,719)	(55%)

Net assets - beginning of year	11,706,900	11,395,798	311,102	3%
Net assets - end of year	$11,846,283	$11,706,900	$ 139,383	1%

Total operating revenues increased seven percent from the previous fiscal year due to increase in rental business support, development fees, and interest revenues. Operating expenses increased 10 percent due to computer purchases and server upgrades, increased legal fees for Biotech Eight, LLC, salary/benefit increases, and increased deprecation expense.

Statement of Cash flows

The Statement of Cash Flows provides information about the Authority's cash receipts and cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where cash came from, what was it used for and the change in cash balance during the reporting period.

Comparative Condensed Statement of Cash Flows

	2007	2006
Cash flows from operating activities	$ 1,243,769	$ 1,191,786
Cash flows from non-capital financing activities	(152,784)	(167,257)
Cash flows from capital and related financing activities	(1,646,619)	(1,336,070)
Net increase/(decrease) in cash and cash equivalents	(555,634)	(311,541)
Cash and cash equivalents:		
Beginning of year	1,771,376	2,082,917
End of year	$ 1,215,742	$ 1,771,376

The Authority's available cash and cash equivalents decreased from $1.77 million at the end of 2006 to $1.22 million at the end of 2007 due to negative cash flow from non-capital and capital financing activities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of June 30, 2007, amounted to $22.7 million (net of accumulated depreciation). This investment in capital assets primarily includes buildings, land, leasehold improvements, and equipment. Major capital asset events during the current fiscal year included the following:

- Transferred land at 740 Navy Hill Road as an investment in Biotech Eight, LLC. The land had a book value of $97,709 and a market value of $1,000,000. The Park also contributed $500,000, for a total investment of $1,500,000 in Biotech Eight, LLC.

- Expenditures of $5,375 for purchase of Marketing Exhibition Booth.

- Obligations and rights of $449,090 for new design costs related to Biotech Eight were forgiven, and transferred to Biotech Eight, LLC.

- Expenditures of $363,780 for improvements to the Labs for Virginia Commonwealth University Health System Transplant program.

Buildings located within the Research Park

Buildings	Number of Occupants	Total Sq. Ft.	Leased Sq. Ft.	Date Acquired/ Constructed
Biotech Center	57	27,455	10,285	1995
Biotech One	342	106,342	93,413	1996
Biotech Two [(A)]	307	102,124	102,124	1998
Biotech Three [(B)]	102	31,124	31,124	1996
Biotech Five	13	13,400	13,400	1999
Biotech Six	250	191,000	191,000	2003
Biotech Seven	350	80,000	80,000	2002
Biotech Eight [(C)]	75	76,300	28,992	2007
Biotech Nine	600	450,000	450,000	2007
Total	2096	1,077,745	1,000,338	

[(A)] Property is now owned by the Commonwealth of Virginia
[(B)] Property is currently owned by VCU Real Estate Foundation.
[(C)] Currently under construction

Biotech One and Center, the Research Park's two completed multi-tenant buildings, had 28 tenant companies. Biotech Center was 100 percent occupied and Biotech One was 99 percent occupied at June 30, 2007. All other Biotech buildings, except Biotech Eight, were 100 percent occupied. Biotech Eight will add to the multi-tenant space in the Park but will not be completed until after the fourth Quarter of 2007.

Long-term Debt

Bonds

At June 30, 2007, the Authority had $59 million in long-term bond debt, excluding current maturities.

The Authority Taxable Lease Revenue bonds were issued in 1998 for $14 million to refinance Biotech One bond and leasehold improvements. Virginia Commonwealth University supports the bonds through a Master Lease with the Virginia Biotechnology Research Partnership Authority. The bonds carry an A2 rating from Moody's Investor Services and AA- rating from Standard and Poor's. The balance excluding current maturities at June 30, 2007 was $8.3 million.

The Authority Industrial Development Revenue bonds, Series 1999A and 1999B were issued in 1999 for $2.74 million to finance construction of Biotech Five. An operating lease between the Authority and Infilco Degremont North American Research and Development Center supports the bonds. The bonds carry an A rating from Standard and Poor's. The balance excluding current maturities at June 30, 2007 was $1.8 million.

The Authority Lease Revenue bonds were issued in 2001 for $60 million to finance the construction of Biotech Six. A capital lease between the Authority and Virginia Division of Consolidated Laboratory Services supports the bonds. The bonds carry an AA+ rating from Standard and Poor's, Aa1 rating from Moody's Investor Services and AA+ rating from Fitch Rating, Inc. The balance excluding current maturities at June 30, 2007 was $47 million.

In 2002 the Authority issued Variable Rate Revenue Bonds in the amount of $12 million for the construction of Biotech Seven. The 2002 bonds were issued as a conduit to finance construction of the new national headquarters for the United Network for Organ Sharing (UNOS), and as such, the Authority does not have a financial obligation and does not carry a balance on the financial statements. The bonds carry a Standard and Poor's rating of A+/A-1.

In 2006, the Authority served as the conduit for issuing $14 million in tax-exempt variable rate revenue bonds to finance the construction of new facilities for Virginia Blood Services in Henrico County, Virginia. The bonds were secured by pledge payments from Virginia Blood Services and the ASTRAEA, the parent company of Virginia Blood Services and were secured by a letter of credit issued by Sun Trust Bank.

Other Debt

In June 2006, the Authority entered into a loan agreement in the amount of $436,600 to purchase property located at 603 North 7th Street and 704 East Leigh Street and property located at 616 North 8th Street. The loan's interest rate is LIBOR Market Index Rate plus two percent. The loan is payable in monthly interest payments. All principal and unpaid interest is due and payable on or before June 2009.

In June 2006, the Authority opened a $1 million revolving line of credit for upcoming and future Capital expansion projects. During fiscal year 2007 the credit limit was increased to $1.5 million. At June 30, 2007, the line of credit had a balance of $363,781. The line of credit is scheduled for renewal June 2009.

Future Impact to Financial Position.

In May 2007, the Boards of Directors of the Authority and the Corporation adopted a resolution instituting a voluntary assessment program for all occupied buildings and properties within the Research Park not owned by the Authority. The rationale for the assessment program is to provide an operating revenue supplement to the Authority in return for services, programs and benefits that are provided to all tenants and occupants of the Park. If fully implemented at the rate of $0.50 per square foot of gross building space, the program could represent additional revenues of approximately $464,000 the first full year of assessment. Since the program is voluntary, it will require execution of agreements with the private-sector entities in the

Park and some type of appropriation by the Commonwealth through the biennial budget process in order to cover the two State labs located in the Park.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money we receive. If you have any questions about this report or need additional financial information, contact the Authority's Financial Manager at 800 East Leigh Street, Richmond, VA 23219.

FINANCIAL STATEMENTS

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2007

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	$ 119,133
Cash with trustee invested (Note 2)	604,906
Cash with Local Government Investment Pool (Note 2)	491,703
Accounts receivable	276,503
Prepaid expenses	4,845
Unamortized bond issuance costs - current	24,024
Net investment in lease receivable - current (Note 4)	2,320,000
Total current assets	3,841,113
Non-current assets, net of depreciation:	
Net investment in lease receivable (Note 4)	47,484,998
Unamortized bond issuance costs	270,894
Investment in Biotech 8, LLC (Note 14)	597,709
Non-depreciable capital assets (Note 3)	5,280,354
Depreciable capital assets, net of accumulated depreciation (Note 3)	17,395,510
Total non-current assets	71,029,465
Total assets	74,870,578
LIABILITIES	
Current liabilities:	
Accounts payable	176,961
Customer deposit	48,604
DCLS payable	486,938
Deferred income	250,226
Long-term debt - current portion (Note 6)	3,307,692
Accrued EDA expense - current (Notes 6 & 10)	72,391
Total current liabilities	4,342,812
Non-current liabilities:	
Long-term debt (Note 6)	58,667,300
Compensated absences (Note 6)	14,182
Total non-current liabilities	58,681,482
Total liabilities	63,024,294
NET ASSETS	
Invested in capital assets, net of related debt	10,900,483
Unrestricted	945,800
Total net assets	$ 11,846,283

The accompanying Notes to Financial Statements are an integral part to this financial statement.

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the year ended June 30, 2007

Operating revenues:	
Rental income	$ 2,972,184
Parking income	307,869
University and other support (Note 9)	46,360
Business support services	68,668
Development Fee	15,000
Interest income	44,830
Other income	65,474
Total operating revenues	3,520,385
Operating expenses:	
Salaries and benefits	949,132
Marketing and promotion	71,628
Occupancy costs	809,786
Administrative	173,286
Depreciation expense (Note 3)	549,088
Other expenses	8,944
Total operating expenses	2,561,864
Income from operations	958,521
Non-operating revenue/(expenses):	
VBDC in kind expense (Note 11)	(155,004)
DCLS bond servicing fee	65,038
VCUREF for guarantee on Biotech Five	(2,643)
Interest revenue	2,468,500
Interest expense	(3,200,141)
Income from funds in trust	23,346
Miscellaneous non-operating revenue	(18,234)
Total non-operating activity	(819,138)
Change in net assets	139,383
Net assets - beginning of year	11,706,900
Net assets - end of year	$ 11,846,283

The accompanying Notes to Financial Statements are an integral part of this financial statement.

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2007

Cash flows from operating activities:	
Cash received from rent	$ 2,805,314
Cash received from parking	112,170
Cash received from university and other support	46,360
Cash received from business support services	64,448
Cash received from development fee	15,000
Cash received from interest revenue	44,830
Cash received from miscellaneous income	64,604
Payments for personnel expenses	(904,636)
Payments fo rmarketing expenses	(64,049)
Payments for occupancy expenses	(765,546)
Payments for administrative expenses	(165,782)
Payments for other expenses	(8,944)
Net cash provided by operating activities	1,243,769
Cash flows from non-capital financing activities:	
Payments made on behalf of VBDC	(152,784)
Net cash used by noncapital financing activities	(152,784)
Cash flows from capital and related financing activities:	
DCLS bond servicing fee	65,038
DCLS project revenue	486,938
EDA obligation payments	(70,964)
Proceeds from line of credit	363,781
Fixed asset additions	(369,156)
Interest revenue	23,346
Interest paid on Biotech 6	(2,468,500)
Principal paid on Biotech 6	2,225,000
Interest paid-other	(735,310)
Principal paid-other	(5,355,000)
Principal and interest received from capital lease	4,693,498
Investment in Biotech 8	(500,000)
Other non-operating revenue, net	(5,290)
Net cash used by capital and related financing activities	(1,646,619)
Net decrease in cash	(555,634)
Cash and cash equivalents - beginning of the year	1,771,376
Cash and cash equivalents - end of the year	$ 1,215,742

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating income	$	958,521
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		549,088
VBDC rental income allocation		(2,220)
Parking revenue reimbursement		(195,834)
Increase in accounts payable		44,240
Increase in benefits payable		45,000
Increase in operating accounts receivable		(177,357)
Increase in customer deposit		12,559
Increase in deferred income		10,697
Decrease in advance paid rent		(15,505)
Decrease in prepaid expenses		15,084
Decrease in leave accrual		(504)
Net cash used by operating activities	$	1,243,769
Noncash capital and related financing activities:		
Contract obligations transferred/forgiven		(449,090)
Land transfer for Investment in Biotech 8, LLC		(97,709)
Total non-cash capital and related financing activities	$	(546,799)

The accompanying Notes to Financial Statements are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Virginia Biotechnology Research Partnership Authority (Authority), which began operations effective July 1, 1993, provides a mechanism for financing construction of the Biotechnology Research Park through bond issuances and other approved means. The Virginia Biotechnology Research Park Corporation (Corporation) is an Internal Revenue Code Section 501(c)(3) corporation and is organized and operated exclusively for scientific, educational, and charitable purposes. For financial statement presentation, the Corporation is reflected as a blended component unit of the Authority. Corporation revenues and expenses each totaled $46,360 for the year ended June 30, 2007.

The Authority is responsible for operating, managing, and maintaining the Research Park properties, including maintaining grounds and oversight of sub-contractors.

The Authority is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth. A separate report is prepared for the Commonwealth that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

Basis of Accounting

The financial statements of the Authority have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with generally accepted accounting principles, which provides that revenues are recorded when earned and expenses are recorded when incurred.

The Authority defines operating revenues as revenue derived from the primary business activities of the Authority. These activities include the following: 1) lease revenues related to non-capitalized leases with lease terms of one-year or less; 2) contributions from Virginia Commonwealth University, or other contributed income directly supporting the operations or advancement of the Research Park; 3) revenue derived from ownership and management of parking surface lots within the footprint of the Research Park; and 4) other miscellaneous revenue sources such as vending machine commissions, event fees for conference facilities, tenant fax and copying fees, and expenditure reimbursements that are not related to a specific capital outlay project.

The Authority defines non-operating revenues as revenue derived from capital lease agreements and capital financing activities such as interest income on funds held in trust accounts and developer’s fees earned on bond issuances.

Cash and Cash Equivalents

For the purpose of reporting cash flows, the Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Asset Capitalization and Depreciation Method

Capital assets are generally assets with an initial cost of $2,500 or more and an estimated useful life in excess of two years. Capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Capital assets are comprised of land, buildings, equipment, construction-in-progress, and other improvements. Donated capital assets are carried at market value at the date of contribution. Accumulated depreciation is reported on the Statement of Net Assets. Depreciation is computed on the straight-line basis over the estimated useful life of the asset ranging from five to 48 years. Depreciable Buildings were evaluated at the beginning of the fiscal year 2005 and determined to have 40 years of useful life remaining from July 2004 going forward.

Buildings	20-48 years
Improvements	5-15 years
Equipment	3-20 years
Land	Non-depreciable assets

The costs for maintenance and repairs are charged to occupancy expense as incurred. When items are retired or otherwise disposed of, the related costs and accumulated depreciation are eliminated from the accounts and any resulting profit or loss on such dispositions is reflected in non-operating activities.

Equity Investments

Investments are reported using the equity method of accounting over the estimated life of the investment.

Long-Term Obligations

Long-term obligations are reported as liabilities in the Statement of Net Assets. In accordance with paragraph 146 of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The Authority elected to apply this policy prospectively beginning July 1, 2004.

Compensated Absences

Compensated absences represent the amounts of Paid Time Off (PTO) hours earned by employees, but not taken at June 30, 2007. PTO combines traditional vacation and sick leave and accrues based on employee's years of service. The amount reflects all earned PTO and related payroll taxes to be paid under the Authority's leave pay out policy upon employment termination.

Interest Income

Interest income and expense from operating and LGIP accounts are recorded as operating revenue. Interest income and administrative fees related to the bond accounts are recorded as non-operating revenue.

2. CASH AND CASH EQUIVALENTS

The Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB No. 3, modified previous disclosure requirements related to investment risk. This statement requires deposit and investment risk disclosures for credit risk, including custodial credit risk and concentrations of credit risk, interest rate risk, and foreign currency risk.

Cash is defined as demand deposits, non-negotiable time deposits, and certificates of deposit in accordance with Section 2.2-4400 of the Code of Virginia. Cash equivalents are defined as investments with an original maturity of less than three months. Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks holding public deposits in excess of the amount insured by the FDIC must pledge collateral that ranges in amounts from 50 percent to 100 percent of excess deposits in the case of a bank, and 100 percent to 110 percent for a savings institution to a collateral pool in the name of the Commonwealth of Virginia Treasury Board. Accordingly, all deposits are considered fully collateralized.

Cash with the trustee represents bond proceeds held by trustees. Other funds of the Authority are invested in the State Treasurer's Local Government Investment Pool (LGIP), whose carrying value is equal to the market value. The LGIP is a Standard & Poor's AAA rated investment pool.

3. PROPERTY, PLANT AND EQUIPMENT

	Beginning Balance as of July 1, 2006	Acquired (Increased)	Deleted (Decreased)	Ending Balance as of June 30, 2007
Land	$ 5,378,063	$ -	$ 97,709	$ 5,280,354
Construction-in-progress	449,090	-	449,090	-
Buildings	24,107,571	-	-	24,107,571
Equipment	327,186	5,375	-	332,561
Leasehold improvements	1,461,034	363,781	-	1,824,815
Total at historical cost	31,722,944	369,156	546,799	31,545,301
Less accumulated depreciation for:				
Buildings	6,818,459	465,121	-	7,283,580
Equipment	112,893	25,358	-	138,251
Leasehold improvements	1,388,997	58,609	-	1,447,606
Total accumulated depreciation	8,320,349	549,088	-	8,869,437
Capital assets, net	$ 23,402,595	$ (179,932)	$ 546,799	$ 22,675,864

The decrease in the Authority's construction-in-progress represented the write off of $449,090 for architectural fees and planning costs associated with the Biotech Eight project transferred to Biotech Eight, LLC. The Authority wrote off related liabilities in the amount of

$449,090, shown as contractual obligations in the fiscal year 2006 financial statements. Land with a book value of $97,709 was transferred as part of the Authority's equity investment in Biotech Eight, LLC. The increase of $363,781 in Leasehold improvements represents the build out of the Islet lab related to the VCU Health System lease.

4. LEASE RECEIVABLE

The Authority has a capital lease agreement with the Department of General Services for the Biotech Six building. The capital lease has a value of $70,812,818 at June 30, 2007, which equals the remaining principal and interest due on the debt for the Biotech Six building. The financial statements include unearned income of $21,007,818 related to the capital lease receivable for interest due in future periods. The following lists the components of the net investment in lease receivable as of June 30, 2007:

	2007
Current portion:	
Minimum lease payments receivable	$ 4,697,144
Less: unearned revenue	(2,377,144)
Current net investment in lease receivable	2,320,000
Non-current portion:	
Minimum lease payments receivable	66,115,674
Less: unearned revenue	(18,630,676)
Non-current net investment in lease receivable	47,484,998
Total net investment in lease receivable	$ 49,804,998

At June 30, 2007, lease payments for each of the succeeding fiscal years are as follows:

Year	Amount
2008	$ 4,697,144
2009	4,698,894
2010	4,703,619
2011	4,705,756
2012	4,705,994
2013 – 2017	23,597,036
2018 – 2022	23,704,375
Total lease payments	$ 70,812,818

5. CONDUIT DEBT OBLIGATIONS

On April 9, 2002, the Authority issued $12,000,000 in Series 2002 Variable Rate Revenue Bonds to fund construction of the Biotech Seven project. Biotech Seven is an office facility built specifically for lease to the United Network for Organ Sharing (UNOS). The bonds are secured by a letter of credit and are payable solely from the lease payments made by the borrower under the loan agreement. Upon repayment of the bonds, ownership of the facility transfers to UNOS. The bonds do not constitute a debt or pledge of the faith and credit of the Authority or the Commonwealth and accordingly have not been reported in the accompanying financial statements.

On October 1, 2006, the Authority issued $14,000,000 series 2006 Variable Rate Revenue Bonds to finance the Virginia Blood Services project. The Virginia Blood Services project was issued to finance the acquisition of land and the construction, equipping and development of a new 60,000 square foot headquarters facility in Henrico County, including a collection center, a production facility, a distribution area and other related improvements. The bonds are secured by a letter of credit and are payable solely from the lease payments made by the borrower under the loan agreement. The bonds do not constitute a debt or pledge of the faith and credit of the Authority or the Commonwealth and accordingly have not been reported in the accompanying financial statements.

6. NON-CURRENT LIABILITIES

The Authority's non-current liabilities consist of long-term debt, accrued, and other non-current liabilities.

Long-term debt of the Authority consists of the following bonds, line of credit, and notes payable at June 30, 2007:

5.33 percent to 6.25 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech One Project), Series1998. These bonds were issued to retire $11.9 million of tenant improvement loans, which were originally financed with a 9.5 percent interest rate.	$ 9,040,000
5.25 percent to 6.40 percent taxable and tax-exempt Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech Five Project), Series 1999A and 1999B.	1,935,000
4.00 percent to 5.00 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech Six Consolidated Laboratories Project), Series 2001.	49,805,000
LIBOR market index rate plus 2.0 percent, three year, interest only, Wachovia note payable taken on June 22, 2006. This deed of trust was used to purchase two pieces of land, which serve as collateral on the note.	436,600
LIBOR market index rate plus 1.0 percent, renewable, interest only, Wachovia Line of Credit of $1.5 million taken on September 7, 2006. Credit line renewable June 2009	363,781
Total long-term debt	$ 61,580,381

Long-term debt matures as follows:

Fiscal year	Principal	Interest	Total
2008	$ 3,280,000	$ 3,064,300	$ 6,344,300
2009	4,240,381	2,911,164	7,151,545
2010	3,610,000	2,692,851	6,302,851
2011	3,795,000	2,519,267	6,314,267
2012	3,995,000	2,323,182	6,318,182
2013-2017	21,685,000	8,077,680	29,762,680
2018-2022	20,975,000	2,729,375	23,704,375
Total	$ 61,580,381	$ 24,317,819	$ 85,898,200

A summary of changes in the Authority's non-current liabilities for the year ended June 30, 2007 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable:					
Commonwealth of Virginia lease revenue bonds	$63,910,000	$ -	$ 3,130,000	$60,780,000	$ 3,280,000
Unamortized bond premium	422,304	-	27,693	394,611	27,692
Notes payable:					
Line of Credit	-	363,781	-	363,781	-
Deed of Trust	436,600	-	-	436,600	-
Total long-term debt	64,768,904	363,781	3,157,693	61,974,992	3,307,692
Accrued EDA expense	143,355	-	70,964	72,391	72,391
Compensated absences	14,686	-	504	14,182	-
Total long-term liabilities	$64,926,945	$ 363,781	$ 3,229,161	$62,061,565	$ 3,380,083

7. PENSION PLAN

Employees of the Authority participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agency for the Commonwealth and its political subdivisions.

The VRS does not measure assets and pension benefit obligations for individual state agencies. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The CAFR discloses the unfunded pension benefit obligation at June 30, 2007, as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The Authority's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $84,720 for the year ended June 30, 2007. These contributions included the employee contribution and life insurance assumed by the employer. For fiscal year 2007 the contribution rate was 10.14 percent and the life insurance rate was 1.13 percent. Contributions to the VRS were calculated using a base salary amount of approximately $751,729 for the fiscal year ended June 30, 2007. The Authority's total payroll was approximately $785,117 for the year ended June 30, 2007.

8. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program, which provides post-employment life insurance benefits to eligible retired and terminated employees. Information relating to these plans is available at the statewide level in the CAFR.

9. FINANCIAL SUPPORT

The Authority received $46,360 from Virginia Commonwealth University during fiscal year 2006 for adjunct faculty contributions. On August 19, 1994, a Memorandum of Understanding was signed committing the Virginia Commonwealth University to a 20-year master lease with the Authority which guarantees monthly rent equal to the principal and interest necessary to amortize the outstanding debt associated with the construction to the facilities and additional rent required. Upon the commencement of this lease, the amount payable under the lease shall not exceed $935,000 annually during the first ten years of the lease and $2,200,000 annually for the remainder of the lease term.

10. ACCRUED EDA LIABILITY

The Authority was involved in a dispute brought by the Economic Development Administration (EDA) related to grant funds received for construction. After receiving an appeal from the Authority, the EDA imposed a fee of $366,283 in settlement of the issue and agreed to a five-year repayment schedule at a cost of two percent per annum. As of June 30, 2007, $72,391 in principal remains outstanding.

11. RELATED PARTY TRANSACTIONS

During fiscal year 2002, the Authority established the Virginia Biosciences Development Center (VBDC). VBDC is a private, not-for-profit corporation organized under 501(c) (3) of the Internal Revenue Code that provides administrative support to start-up biotechnology companies. Expenses incurred by the Authority related to the operations of VBDC during fiscal year 2007 totaled $155,004.

12. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Authority participates in insurance plans maintained by the Commonwealth.

The Department of Human Resource Management administers the state employee health care plan. The risk management insurance plans and worker's compensation plans are administered by a private insurance agency. Risk management insurance includes property and general liability plans and faithful performance of duty bond. The Authority pays premiums directly to the vendor for insurance coverage. Information relating to the Commonwealth's employee health care plan is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

13. BIOTECH EIGHT, LLC INVESTMENT

The Biotech Eight LLC is a for-profit development entity that the Virginia Biotechnology Research Park has a 39 percent equity interest in. Under the terms of the Operating Agreement creating the LLC, the Authority, as a limited partner, is subject to cash call provisions in the event of construction or operating shortfalls. However, the Authority's exposure is limited to $1 million in any three-year period, without the consent of the Board. Any cash calls in excess that may not be approved by the Board would result in a reduction of the Research Park's 39 percent equity, under the terms of the Operating Agreement. The total cost of the project is expected to be in excess of $22 million and the building will be available for occupancy in the first quarter 2008.

The Research Park contributed cash in the amount of $500,000 and land at 740 Navy Hill Road with a book value of $97,709 and a market value of $1,000,000 for a total equity contribution of $1,500,000. The Authority recognizes the investment as follows:

Investment in Biotech Eight, LLC	$1,500,000
Unrealized gain on land	(902,291)
Net Investment in Biotech Eight, LLC	$ 597,709

14. SUBSEQUENT EVENTS

In May 2007, the Boards of Directors of the Authority and the Corporation adopted a resolution instituting a voluntary assessment program for all occupied buildings and properties within the Research Park not owned by the Authority. The rationale for the assessment program is to provide an operating revenue supplement to the Authority in return for services, programs and benefits that are provided to all tenants and occupants of the Park. The reason this would only apply to non-Authority owned properties is the underlying assumption that the principle revenues to support the current operations of the Authority are derived from rents on Authority owned space. However, as the Park expands, new companies and employees come to the Park, but the base of properties that the Authority collects rents from remains the same. It is imperative that new sources of revenue be created. If fully implemented at the rate of $0.50 per square foot of gross building space, the program could represent additional revenues of approximately $464,000 the first full year of assessment. Since the program is voluntary, it will require execution of agreements with the private-sector entities in the Park and some type of appropriation by the Commonwealth through the biennial budget process in order to cover the two State labs located in the Park.

Beginning February 2006, the board began discussions to update the Park's Strategic plan. Areas of focus are the Park's financial stability, expanding marketing efforts, business communication environment, and land use and physical planning parameters. The updated strategic plan will be presented at the December 2007 board meeting for adoption.

Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

October 30, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia Biotechnology Research Partnership Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of **Virginia Biotechnology Research Partnership Authority**, a component unit of the Commonwealth of Virginia as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2007 and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages one through eight is not a required part of the basic financial statements, but is supplementary information required by the 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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

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 over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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.

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Directors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 6, 2007.

AUDITOR OF PUBLIC ACCOUNTS

DDM/wdh