VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2008

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia BioTechnology Research Partnership Authority (Authority) for the year ended June 30, 2008, found:

- the financial statements are presented fairly, in all material respects;
- an internal control matter that requires management's attention and corrective action; this is located in the "Internal Control Finding and Recommendation" section of this report; and
- no instances of noncompliance with material laws and regulations or other matters that are required to be reported.

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Internal Control Finding and Recommendation

Improve Fiscal Operations

The Authority did not complete its financial statements until May 2009, resulting in it missing its November 1 deadline for issuance of its financial statements due to the absence of its sole financial reporting employee. The 2005 Acts of Assembly, Chapter 788, Section 17.C. states that, "The Authority shall submit an annual report to the Governor and General Assembly on or before November 1 of each year. Such report shall contain the audited annual financial statements of the Authority for the year ending the preceding June 30."

Previously, the Authority had two employees working in the accounting area, and fiscal constraints resulted in the loss of one of these employees. However, the remaining individual, prior to being absent due to illness, was having difficulty keeping up with both her day-to-day job functions and the year end reporting process.

Although we did not encounter other problems, the lack of staff, separation of financial transaction processing duties, and other related matters place the Authority at high risk that further loss of personnel or other demands could significantly affect management's ability to provide sound financial information and properly and accurately process accounting transactions. Management should ensure that there is sufficient staff to do the work and that staff are properly cross-trained, so that the absence of one individual does not prevent the Authority from meeting its statutory deadline.

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, 2008. 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 and contracting for goods and services. 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 $47,751 for fiscal year 2008.

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 private sector 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, line of credit debt, 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 capital funding in previous years through bonds issued by the City of Richmond. The Research Park, as of June 30, 2008, was occupied by 33 private and non-profit companies, five state laboratories and offices, and seven research institutes/administrative functions of Virginia Commonwealth University, filling approximately 1,100,000 square feet of laboratory and office space in nine buildings and employing more than 2,000 researchers, scientists, engineers and support personnel.

In 2005, the Authority 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 employs approximately 500 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 is now two-thirds developed.

BioTech Eight is a multi-tenant building in the Research Park. It is located on 5th Street in the location of the former BioTech Four. BioTech Eight is three stories with 76,300 square feet of space, and has an adjacent 299-space parking structure. The project is owned by a private entity, BioTech Eight, LLC. Construction began the fall of 2006 and was completed in the 1st quarter 2008.

When fully developed, the Research Park will contain approximately 1.75 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

- 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 is home to approximately 500 employees.

- In November 2006, the Authority entered into a partnership called BioTech Eight, LLC. The BioTech Eight, LLC is a for-profit development entity that the BioTech Authority has approximately 40 percent equity interest in. The Authority contributed land and cash and entered 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 moved in during the 1st quarter of 2008.

- In March 2008, the Authority entered into an agreement with the Virginia Commonwealth University (VCU) Health System Authority and BioTech Eight, LLC to draw on the Authority’s Line of Credit with Wachovia Bank in the amount of $1,188,671 to provide funding for excess tenant improvements for the VCU Health Systems HLA Laboratory in BioTech Eight. The loan will be repaid directly to the Authority over the 84-month term of the lease at 7.25 percent annual interest as “additional rent.”

- In May 2008, the Authority was notified by the City of Richmond that the Office of the Assessor was beginning a review of assessments of properties within the Research Park owned by the Authority. The Authority, which was created as a political subdivision by the Acts of Assembly, as amended, is exempt from all state taxes, including real estate and property taxes. Since 1996, the Authority has operated under a voluntary agreement with the City of Richmond whereby leases for private sector tenants in buildings owned by the Authority would remit full real estate taxes through rents collected by the Authority on such tenants. The Authority "builds" the full assessment of property taxes into leases in the BioTech Center, BioTech One, and BioTech Five, all of which have private sector tenants. In the notice received by the Authority from the Office of the Assessor in May 2008, the Authority was notified of a change in interpretation under the provision of the *Code of Virginia*, that properties owned by the Authority are subject to PILOT (payment in lieu of taxes) assessments because, in the opinion of the Assessor, the Authority is a state entity and therefore is subject to such assessments, versus the arrangement which has been in place for the past 12 years.

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, 2008. 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, 2008 and 2007 are as follows:

Statement of Net Assets, as of June 30, 2008 and 2007

	2008	2007	Value of Change	Percentage Of Change
Assets:				
Current and other assets	$50,782,578	$52,194,714	$(1,412,136)	(3)%
Capital assets, net	22,145,867	22,675,864	(529,997)	(2)%
Total assets	$72,928,445	$74,870,578	$(1,942,133)	(3)%
Liabilities:				
Current and other liabilities	$ 4,302,744	$ 4,342,812	$ (40,068)	(1)%
Long-term liabilities	56,406,817	58,681,482	(2,274,665)	(4)%
Total liabilities	$60,709,561	$63,024,294	$(2,314,733)	(4)%
Net assets:				
Invested in capital assets, net	$10,135,287	$10,900,483	$ (765,196)	(7)%
Unrestricted	2,083,597	945,800	1,137,797	120%
Total net assets	$12,218,884	$11,846,283	$ 372,601	3%

The Authority's total assets decreased three percent and total liabilities decreased four percent. These reductions were due mainly to the reduction in the net investment in lease receivable and long-term debt. The total assets of the Authority exceeded its liabilities by $12.2 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, 2008 and 2007 are as follows:

Statement of Revenues, Expenses, and Changes in Net Assets
for the years ended June 30, 2008 and 2007

	2008	2007	Value of Change	Percentage Of Change
Operating revenues:				
Rental income	$ 3,032,363	$ 2,972,184	$ 60,179	2%
Parking income	264,594	307,869	(43,275)	(14)%
University and other support	47,751	46,360	1,391	3%
Business support services	80,402	68,668	11,734	17%
Development fee	12,790	15,000	(2,210)	(15)%
Assessment fee	265,000	-	265,000	100%
Interest income	12,908	44,830	(31,922)	(71)%
Other income	25,511	65,474	(39,963)	(61)%
Total operating revenues	3,741,319	3,520,385	220,934	6%
Operating expenses:				
Salaries and benefits	943,338	949,132	(5,794)	(1)%
Marketing and promotion	37,870	71,628	(33,758)	(47)%
Occupancy costs	1,046,159	809,786	236,373	29%
Administrative	89,930	173,286	(83,356)	(48)%
Depreciation expense	590,997	549,088	41,909	8%
Other	-	8,944	(8,944)	(100)%
Total operating expenses	2,708,294	2,561,864	146,430	6%
Operating income	1,033,025	958,521	74,504	8%
Non-operating revenues and expenses	(660,424)	(819,138)	158,714	19%
Change in net assets	372,601	139,383	233,218	167%
Net assets - beginning of year	11,846,283	11,706,900	139,383	1%
Net assets - end of year	$12,218,884	$11,846,283	$372,601	3%

Total operating revenues increased six percent from the previous fiscal year due to increase in rental, business support, and assessment fee revenues. Operating expenses increased six percent due to increased occupancy costs.

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 what was the change in cash balance during the reporting period.

Condensed Statement of Cash Flows
for the years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities	$1,813,394	$1,243,769
Cash flows from non-capital financing activities	(183,219)	(152,784)
Cash flows from capital and related financing activities	(1,857,108)	(1,646,619)
Net decrease in cash and cash equivalents	(226,933)	(555,634)
Cash and cash equivalents:		
Beginning of year	1,215,741	1,771,376
End of year	$ 988,808	$1,215,742

The Authority's available cash and cash equivalents decreased from $1.22 million at the end of 2007 to $.99 million at the end of 2008 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, 2008 amounted to $22.1 million (net of accumulated depreciation). This investment in capital assets primarily includes buildings, land, leasehold improvements, and equipment. A major capital asset event during the current fiscal year included the receipt of donated equipment with a value of $61,000 from B.I. Chemicals.

Buildings located within the Research Park

Buildings	Number of Occupants	Total Sq. Ft.	Leased Sq. Ft.	Date Acquired/ Constructed
BioTech Center	52	27,455	10,431	1995
BioTech One	363	106,342	91,145	1996
BioTech Two (A)	165	133,700	102,124	1998
BioTech Three (B)	115	31,124	31,124	1996
BioTech Five	13	13,400	13,400	1999
BioTech Six	269	191,000	191,000	2003
BioTech Seven (C)	350	80,000	80,000	2002
BioTech Eight (D)	80	76,300	34,269	2007
BioTech Nine (C)	500	450,000	450,000	2007
Total	1,907	1,109,321	1,003,493	

(A) Property is owned by the Commonwealth of Virginia
(B) Property is owned by VCU Real Estate Foundation
(C) Property is owned by Building Occupant
(D) Property is owned by BioTech Eight, LLC.

The BioTech Center was 95 percent occupied, BioTech One was also 95 percent occupied, and BioTech Eight was 45 percent occupied at June 30, 2008. All other BioTech buildings were 100 percent occupied.

Long-Term Debt

Bonds

At June 30, 2008, the Authority had $56.4 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 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, 2008 was $8.3 million.

The Authority Industrial Development Revenue bonds, Series 1999A and 1999B, were issued in 1999 for $2.75 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, 2008 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, 2008 was $47.5 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 2008 the credit limit was increased to $3 million. At June 30, 2008 the line of credit had a balance of $1.6 million.

Future Impact to Financial Position

In May 2008, the BioTech Authority received property tax statements from the City of Richmond that were substantially more than the Park has remitted in prior years. After discussions with the City Assessor's Office, the Park learned that the City Assessor has determined that, as a political subdivision of the Commonwealth of Virginia, the Authority is subject to "payment in lieu of taxes" (PILOT assessments) under the provisions of the *Code of Virginia* that permits local units of government to levy fees for certain public services (e.g., police and fire protection) to the state for facilities located within its jurisdiction. This represents a significant change over the historical practice and agreement that the Park and the City have operated under since 1996, whereby the Park voluntarily remitted full property taxes at current assessment rates for *private sector* tenants in Authority-owned facilities, but other tenant occupancy by VCU, the Park and other non-profits has been exempt from payment of any taxes. The City PILOT assessment is a difference of a tax liability to the City of $79,845, versus the $22,350 that the Park had budgeted for 2009 based on past practice. The Park has initiated discussions with the City and has also filed appeals with the Assessor's Office regarding this change in interpretation.

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, 2008

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	$ 64,219
Cash with trustee invested (Note 2)	660,739
Cash with Local Government Investment Pool (Note 2)	263,850
Accounts receivable	234,090
Prepaid expenses	4,894
Net investment in lease receivable - current (Note 5)	2,415,000
Unamortized bond issuance costs - current	24,024
BioTech Eight, LLC HLA Lab Receivable - current (Note 3)	198,112
Total current assets	3,864,928
Non-current assets:	
Net investment in lease receivable (Note 5)	45,069,998
Unamortized bond issuance costs	246,869
Investment in BioTech Eight, LLC (Note 14)	610,224
BioTech Eight, LLC HLA Lab Receivable (Note 3)	990,559
Non-depreciable capital assets (Note 4)	5,280,354
Depreciable capital assets, net of accumulated depreciation (Note 4)	16,865,513
Total non-current assets	69,063,517
Total assets	72,928,445
LIABILITIES	
Current liabilities:	
Accounts payable	329,576
Customer deposit	48,871
DCLS payable	210,081
Deferred income	246,524
Long-term debt - current portion (Note 7)	3,467,692
Total current liabilities	4,302,744
Non-current liabilities:	
Long-term debt (Note 7)	56,394,807
Compensated absences (Note 1)	12,010
Total non-current liabilities	56,406,817
Total liabilities	60,709,561
NET ASSETS	
Invested in capital assets, net of related debt	10,135,287
Unrestricted	2,083,597
Total net assets	$ 12,218,884

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

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the year ended June 30, 2008

Operating revenues:	
Rental income	$ 3,032,363
Parking income	264,594
University and other support (Note 10)	47,751
Business support services	80,402
Development fee	12,790
Assessment fee	265,000
Interest income	12,908
Other income	25,511
Total operating revenues	3,741,319
Operating expenses:	
Salaries and benefits	943,338
Marketing and promotion	37,870
Occupancy costs	1,046,159
Administrative	89,930
Depreciation expense (Note 4)	590,997
Total operating expenses	2,708,294
Income from operations	1,033,025
Non-operating revenue/(expenses):	
VBDC in kind expense (Note 12)	(203,011)
DCLS bond servicing fee	62,256
VCUREF for guarantee on BioTech Five	(2,610)
Gain recognized on land transfer to BioTech Eight, LLC	11,278
Donated equipment (Note 4)	61,000
Interest revenue	2,378,380
Interest expense	(3,060,620)
Income from funds in trust	22,830
Miscellaneous non-operating revenue	70,073
Total non-operating activity	(660,424)
Change in net assets	372,601
Net assets - beginning of year	11,846,283
Net assets - end of year	$ 12,218,884

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, 2008

Cash flows from operating activities:	
Cash received from rent	$ 3,072,315
Cash received from parking	263,619
Cash received from university and other support	47,751
Cash received from business support services	80,402
Cash received from development fee	12,790
Cash received from assessment fee	265,000
Cash received from miscellaneous income	38,419
Payments for personnel expenses	(954,510)
Payments for marketing expenses	(36,765)
Payments for occupancy expenses	(885,697)
Payments for administrative expenses	(89,930)
Net cash provided by operating activities	1,813,394
Cash flows from non-capital financing activities:	
Payments made on behalf of VBDC	(200,791)
Contributions revenue	20,000
Contributions expenses	(2,428)
Net cash used by noncapital financing activities	(183,219)
Cash flows from capital and related financing activities:	
DCLS bond servicing fee	62,256
BioTech Five guarantee fees	(2,610)
DCLS project expenses	(276,857)
EDA obligation payments	(72,391)
Proceeds from line of credit	6,528
Investment in BioTech Eight, LLC	(12,514)
Interest paid	(3,040,263)
Principal paid	(3,280,000)
Lease receivable for BioTech Six	4,697,144
Other financing activities	61,600
Net cash used by capital and related financing activities	(1,857,108)
Net decrease in cash	(226,933)
Cash and cash equivalents - beginning of the year	1,215,741
Cash and cash equivalents - end of the year	$ 988,808
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating income	$ 1,033,025
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	590,997
Increase in accounts payable	161,615
Decrease in benefits payable	(9,000)
Decrease in operating accounts receivable	42,413
Increase in customer deposits	267
Decrease in deferred income	(3,702)
Increase in prepaid expenses	(49)
Decrease in leave accrual	(2,172)
Net cash used by operating activities	$ 1,813,394
Noncash capital and related financing activities:	
Fixed asset donation	$ 61,000

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 $47,751 for the year ended June 30, 2008.

The Authority is responsible for operating, managing, and maintaining the Research Park properties, including maintaining grounds and oversight of 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/issuer's fees earned on bond issuances and project development.

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 costs 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 three to 48 years. Depreciable Capital Assets 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.

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, 2008. 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 and Poor's AAA rated investment pool.

3. BIOTECH EIGHT, LLC HLA LAB RECEIVABLE

The Authority is in partnership with BioTech Eight, LLC that owns the BioTech Eight building. Effective May 2008, the Authority advanced funds to the VCU Health System in the amount of $1,188,671 for the build out of their lab located within the BioTech Eight building. The VCU Health System is invoiced $18,085 monthly as additional rent for the term of the lease, which includes both repayment of the advance and interest over the seven-year life of the agreement. As of June 30, 2008 the balance was $1,188,671 and 84 installments were still remaining.

4. PROPERTY, PLANT, AND EQUIPMENT

	Beginning Balance as of July 1, 2007	Acquired (Increased)	Deleted (Decreased)	Ending Balance as of June 30, 2008
Land	$ 5,280,354	$ -	$ -	$ 5,280,354
Buildings	24,107,571	-	-	24,107,571
Equipment	332,561	61,000	-	393,561
Leasehold improvements	1,824,815	-	-	1,824,815
Total at historical cost	31,545,301	61,000	-	31,606,301
Less accumulated depreciation for:				
Buildings	7,283,580	465,121	-	7,748,701
Equipment	138,251	30,889	-	169,140
Leasehold improvements	1,447,606	94,987	-	1,542,593
Total accumulated depreciation	8,869,437	590,997	-	9,460,434
Capital assets, net	$22,675,864	$(529,997)	$ -	$22,145,867

The increase in the Authority's equipment is due to donated equipment received from BI Chemicals.

5. 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 $66,115,672 at June 30, 2008, which equals the remaining principal and interest due on the debt for the BioTech Six building. The financial statements include unearned income of $18,630,674 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, 2008:

	2008
Current portion:	
Minimum lease payments receivable	$ 4,698,894
Less: unearned revenue	(2,283,894)
Current net investment in lease receivable	2,415,000
Non-current portion:	
Minimum lease payments receivable	61,416,778
Less: unearned revenue	(16,346,780)
Non-current net investment in lease receivable	45,069,998
Total net investment in lease receivable	$47,484,998

At June 30, 2008, lease payments for each of the succeeding fiscal years are as follows:

Year	Amount
2009	$ 4,698,894
2010	4,703,619
2011	4,705,756
2012	4,705,992
2013	4,710,862
2014 – 2018	23,615,549
2019 – 2022	18,975,000
Total lease payments	$66,115,672

6. 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 and data 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.

7. 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, 2008:

5.33 percent to 6.25 percent Virginia BioTechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (BioTech One Project), Series 1998. These bonds were issued to retire $11.9 million of tenant improvement loans, which were originally financed with a 9.5 percent interest rate.	$ 8,255,000
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.	1,760,000
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.	47,485,000
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.	1,558,980
Total long-term debt	$59,495,580

Long-term debt matures as follows:

Fiscal Year	Principal	Interest	Total
2009	$ 3,440,000	$ 2,929,357	$ 6,369,357
2010	5,605,580	2,766,313	8,371,893
2011	3,795,000	2,519,297	6,314,297
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	$59,495,580	$21,345,204	$80,840,784

A summary of changes in the Authority's non-current liabilities for the year ended June 30, 2008 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable:					
Commonwealth of Virginia lease revenue bonds	$60,780,000	$ -	$3,280,000	$57,500,000	$3,440,000
Unamortized bond premium	394,611	-	27,692	366,919	27,692
Notes payable:					
Line of Credit	363,781	1,195,199	-	1,558,980	-
Deed of Trust	436,600	-	-	436,600	-
Total long-term debt	61,974,992	1,195,199	3,307,692	59,862,499	3,467,692
Accrued EDA expense	72,391	-	72,391	-	-
Compensated absences	14,182	-	2172	12,010	-
Total long-term liabilities	$62,061,565	$1,195,199	$3,382,255	$59,874,509	$3,467,692

8. 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 $87,840 for the year ended June 30, 2008. These contributions included the employee contribution and life insurance assumed by the employer. For fiscal year 2008 the contribution rate was 10.14 percent and the life insurance rate was 1.00 percent. Contributions to the VRS were calculated using a base salary amount of approximately $787,896 for the fiscal year ended June 30, 2008. The Authority's total payroll and benefits was $943,338 for the year ended June 30, 2008.

9. 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.

10. FINANCIAL SUPPORT

The Authority received $47,751 from Virginia Commonwealth University during fiscal year 2008 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.

11. 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, 2008, the remaining principal was paid in full.

12. 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 2008 totaled $203,011.

13. 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.

14. BIOTECH EIGHT, LLC

The BioTech Eight, LLC is a for-profit development entity that the Virginia BioTechnology Research Park has a 39 percent equity interest in. The Research Park contributed land at 740 Navy Hill Road valued at $1,000,000 and cash in the amount of $500,000, for a total equity contribution of $1,500,000. 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 building was 45 percent occupied as of June 30, 2008, and will have an expected total project cost in excess of $22 million when fully occupied.

Investment in BioTech Eight, LLC	$1,500,000
Unrealized gain on land	(891,012)
Net income	1,236
Net investment in BioTech Eight, LLC	$ 610,224

15. SUBSEQUENT EVENTS

In May 2008, the Authority received property tax statements from the City of Richmond that were substantially more than the Park has remitted in prior years. After discussions with the City Assessor's Office, the Park learned that the City Assessor has determined that, as a political subdivision of the Commonwealth of Virginia, the Authority is subject to "payment in lieu of taxes" (PILOT assessments) under the provisions of the *Code of Virginia* that permits local units of government to levy fees for certain public services (e.g., police and fire protection) to the state for facilities located within its jurisdiction. This represents a significant change over the historical practice and agreement that the Park and the City have operated under since 1996, whereby the

Park voluntarily remitted full property taxes at current assessment rates for ***private sector*** tenants in Authority-owned facilities, but other tenant occupancy by VCU, the Park and other non-profits has been exempt from payment of any taxes. The City PILOT assessment is a difference of a tax liability to the City of $79,845, versus the $22,350 that the Park had budgeted for 2009 based on past practice. The Park has initiated discussions with the City and has also filed appeals with the Assessor's Office regarding this change in interpretation.

The Authority refunded the 1998 BioTech One bonds (which had interest rates from 5.33 to 6.25 percent) by refinancing to a 2009 tax-exempt note of $7,929,987 from Banc of America Public Capital Corporation with a 3.25 percent interest rate. This refunding took place on May 27, 2009.

Commonwealth of Virginia

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

June 4, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board Members
Virginia BioTechnology Research Partnership Authority Board
Virginia BioTechnology Research Park Corporation Board

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the **Virginia BioTechnology Research Partnership Authority**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, 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 Virginia BioTechnology Research Partnership Authority as of June 30, 2008, 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 two through ten 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.

Our consideration of internal control over financial reporting was for the limited purpose described in preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a 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 over financial reporting. We consider the deficiency entitled "Improve Fiscal Operations", which is described in the section titled "Internal Control Finding and Recommendation", 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 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 the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above, "Improve Fiscal Operations", to be a material weakness.

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 Authority's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit the Authority's response and, accordingly, we express no opinion on it.

Report Distribution and Exit Conference

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 Authority's Board 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.

We discussed this report with management at an exit conference held on May 27, 2009.

AUDITOR OF PUBLIC ACCOUNTS

MSM/clj

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TO: Martha Mavredes, Deputy Auditor of Public Accounts
Anne Sorensen, APA In-Charge

FROM: Robert T. Skunda, President & CEO Robert T. Skunda

DATE: June 2, 2009

SUBJECT: Management Letter Comment

TITLE: Improve Controls over Financial Reporting

This memorandum is in response to the Management Letter regarding improving controls over financial reporting. The Virginia Biotechnology Research Park Authority (VBRPA) acknowledges we did not meet our statutory deadline for the FY 08 audit, however, this was due to extreme extenuating circumstances regarding a serious illness to our Finance Manager in addition to our current financial position.

- The current lack of additional cash flow has the Park in a position that we are not able to hire additional full-time employees or contract with an accounting firm for services.

- We hired a part-time accounting clerk to process the daily operational tasks of accounts payable, accounts receivable and payroll during the Finance Manager's absence due to her illness. This part-time position has now become a permanent position to assist the Finance Manager with the Park's accounting functions.

- During the Finance Manager's absence, we had discussions with two accounting firms regarding their availability to take over if our Financial Manager was unable to return for a very long term or permanently and they both agreed and were prepared to assist the Park in that event. As it turns out, the Financial Manager did return earlier than anticipated.

- Given the Park's small size and limited resources, we feel that we handled this first experience with this type of situation as best we could, and we have put in place preventative and back up measures in place for addressing similar circumstances for our small size entity in the future.

cc: William R. Dennis
Joy P. Edgett

Transforming Innovation Into Opportunity