VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2006

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, 2006 found:

- the accompanying financial statements present fairly, in all material respects, the Authority's financial position as of June 30, 2006, 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.

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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, 2006. 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 $45,010 for fiscal year 2006.

On March 26, 2005, the 2005 Session of the Virginia General Assembly passed House Bill [HB1801] 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, 2006 was occupied by 35 private and non-profit companies, four state laboratories, and five research institutes/administrative functions of Virginia Commonwealth University, filling approximately 565,000 square feet of laboratory and office space in eight buildings and employing more than 1,200 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 is currently under construction and occupancy is anticipated in the spring of 2007. The Center is expected to have a capital cost of $350 million and 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. Upon completion of the new Philip Morris USA Center for Technology, the Research Park will be two-thirds developed.

Biotech Eight will be a new multi-tenant building in the Research Park. It will be located on 5th street in the current location of Biotech Four. Biotech Eight will be three floors with an approximate total of 76,000 square feet, and will have an adjacent 300-space parking structure. The project will be owned by the Biotech eight; LLC with construction scheduled to begin the fall of 2006 and is due to be completed in mid-2007. This will bring the total square footage in the Research Park to approximately 1,100,000 square feet, and bring employment to approximately 2,000 individuals.

When fully developed, the Research Park will contain 1.3 to 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

- Effective July 1, 2005 the Virginia Biotechnology Research Park Authority was renamed the Virginia Biotechnology Research Partnership Authority. This was part of House Bill (HB1801), which also clarified the powers of the Authority, which may be used throughout the Commonwealth and prospectively expands the Board of Directors of the Authority.

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

- On February 1, 2006 a celebration was held at the Research Park marking the 10th anniversary of the Research Park's opening. The Biotech Center, the first building to be completed in the Research Park, welcomed its first tenants in December of 1995 and the Research Park was dedicated on January 17, 1996. Business Leaders, Dignitaries, Board Members, and Supporters who were instrumental in the Research Park's formation and subsequent success attended the 10th anniversary ceremony.

- Philip Morris USA will occupy Biotech Nine, a 450,000 square foot facility now under construction in the Research Park. The $350 million dollar complex will be home to approximately 600 employees. The facility is scheduled to open in the spring of 2007.

- The Research Park successfully completed a Federal Earmark award from the U.S. Department of Education to incorporate recent research on the brain and the mind, as well as related areas of play and cognition, and to develop a prototype after-school program aimed at improving academic performance using a cognitive skills approach. During fiscal year 2006 all required deliverables were satisfied under the scope of the award.

- During the 2006 session of the Virginia General Assembly, the Authority sought budget authorization to issue up to $20 million in revenue bonds backed by the Commonwealth's moral obligation. This mechanism has previously been utilized by the Commonwealth to finance water and sewer, housing, schools and other projects undertaken by political subdivisions created by the State, analogous to the Authority. Ultimately, the authorizing language was not reported out in the final version of the fiscal year 2006-08 biennial budget presented to the Governor by both houses of the General Assembly.

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, 2006. 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, 2006 and 2005 are as follows:

Statement of Net Assets, as of June 30, 2006 and 2005

	2006	2005	Value of Change	Percentage of Change
Assets:				
Current and other assets	$54,495,620	$ 83,024,953	$(28,529,333)	(34%)
Capital assets, net	23,402,595	23,131,192	271,403	1%
Total assets	77,898,215	106,156,145	(28,257,930)	(27%)
Liabilities:				
Current and other liabilities	4,493,026	6,780,434	(2,287,408)	(34%)
Long-term liabilities	61,698,289	87,979,913	(26,281,624)	(30%)
Total liabilities	66,191,315	94,760,347	(28,569,032)	(30%)
Net assets:				
Invested in capital assets, net	11,381,905	10,401,194	980,711	9%
Unrestricted	324,995	994,604	(669,609)	(67%)
Total net assets	$11,706,900	$ 11,395,798	$ 311,102	3%

The Authority's total assets decreased 27 percent and total liabilities decreased 30 percent. These reductions were due mainly to the change in accounting for lease receivables and unearned revenue. The total assets of the Authority exceeded its liabilities by $11.7 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, 2006 and 2005 are as follows:

Revenues, Expenses, and Changes in Net Assets

	2006	2005	Value of Change	Percentage of Change
Operating revenues:				
Rent income	$2,802,539	$2,720,395	$ 82,144	3%
Parking income	339,899	329,708	10,191	3%
University and other support	45,010	80,699	(35,689)	(44%)
Business support services	20,400	-	20,400	100%
Interest income	41,332	10,298	31,034	301%
Other income	48,998	44,832	4,166	9%
Total operating revenues	3,298,178	3,185,932	112,246	4%
Operating expenses:				
Salaries and benefits	851,552	726,499	125,053	17%
Marketing and promotion	65,442	41,592	23,850	57%
Occupancy costs	775,233	774,683	550	0%
UNOS Master Lease	0	30,000	(30,000)	(100%)
Administrative	122,551	139,702	(17,151)	(12%)
Public Safety Bldg – City of Richmond	1,879	663	1,216	183%
Depreciation expense	511,051	689,095	(178,044)	(26%)
Bad debt expense	-	68,122	(68,122)	(100%)
Other	1,065	1,862	(797)	(43%)
Total operating expenses	2,328,773	2,472,218	(143,445)	(6%)
Operating income/(loss)	969,405	713,714	255,691	36%
Non-operating revenues and expenses	(658,303)	(1,400,663)	742,360	(53%)
Change in net assets	311,102	(686,949)	998,051	(145%)
Net assets - beginning of year	11,395,798	12,082,747	(686,949)	(6%)
Net assets - end of year	$11,706,900	$11,395,798	$311,102	3%

Total operating revenues increased four percent from the previous fiscal year due to increase in rental, parking, and interest revenues. In addition, University support decreased $35,689 in accordance with the Authority's plan for reduction in University operating support. Virginia Commonwealth University continued to support the Authority through unoccupied space support in accordance with Virginia Commonwealth University's master lease on Biotech One. Operating expenses were 36 percent less, representing a decrease from the fiscal year ending June 30, 2005, mainly due to changes in Depreciation, accounting for Amortization expense, and the absence of bad debt expense.

Statement of Cash flows

The Statement of Cash flow 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 did cash come from, what was it used for and what was the change in cash balance during the reporting period.

Comparative Condensed Statement of Cash Flows

	2006	2005
Cash flows from operating activities	$1,191,786	$1,770,091
Cash flows from non-capital financing activities	(167,257)	(182,274)
Cash flows from capital and related financing activities	(1,336,070)	(1,312,029)
Net increase/(decrease) in cash and cash equivalents	(311,541)	275,788
Cash and cash equivalents:		
Beginning of year	2,082,917	1,807,129
End of year	$1,771,376	$2,082,917

The Authority's available cash and cash equivalents decreased from $2.08 million at the end of 2005 to $1.77 million at the end of 2006 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, 2006, amounted to $23.4 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:

- Expenditures of $446,126for the purchase of properties located at 603 North 7th, 704 East Leigh, and 616 North Eighth Streets. These parcels were previously owned by Virginia Commonwealth University and used as parking lots.

- Expensed balance of $153,909 in CIP for previous Biotech Eight design costs prior to the Philip Morris project.

- Expenditures of $449,090 for new design costs related to Biotech Eight, which will begin construction early fall of 2006.

- Expenditures of $6,000 for purchase of Projector for The Robert B. Ball, Sr. Conference center located in the Center.

- Expenditures of $6,200 for renovations for the Virginia Commonwealth University Vice P of Research offices located in Biotech One.

Buildings located within the Research Park

Buildings	Number of Occupants	Total Sq. Ft.	Leased Sq. Ft.	Date Acquired/ Constructed
Biotech Center	45	27,455	10,285	1995
Biotech One	342	106,342	93,413	1996
Biotech Two [(A)]	191	102,124	102,124	1998
Biotech Three [(B)]	110	31,124	31,124	1996
Biotech Four [(B)]	42	12,488	12,448	1996
Biotech Five	13	13,400	13,400	1999
Biotech Six	250	191,000	191,000	2003
Biotech Seven	275	80,000	80,000	2002
Biotech Nine [(C)]	600	450,000	450,000	2007
Total	1868	1,013,933	983,794	

[(A)] Property is now owned by the Commonwealth of Virginia
[(B)] Property is currently owned by VCU Real Estate Foundation. Biotech Four will be replaced with the construction of Biotech Eight, which will be 76,306 sq ft.
[(C)] Currently under construction, numbers are projected

Biotech One and Center, the Research Park's two multi-tenant buildings, had 32 tenant companies. Biotech Center was 75 percent occupied and Biotech One was 99 percent occupied at June 30, 2006. All other Biotech buildings were 100 percent occupied.

Long-term Debt

Bonds

At June 30, 2006, the Authority had $61 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, 2006 was $9 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, 2006 was $2 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, 2006 was $50 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.

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. As of June 30, 2006 the Authority balance was zero.

Future Impact to Financial Position.

Virginia Biotechnology Research Partnership Authority has entered into a partnership called Biotech Eight LLC. The Biotech Eight LLC will be a for-profit development entity that the Virginia Biotechnology Research Park will have a 40 percent equity interest in. The Research Park will contribute land and cash and will also enter into a management agreement for property management and leasing. The private sector partners will arrange 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 in excess of $21 million and the building will be available for occupancy in mid-2007.

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, 2006

ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$	574,137
Cash with trustee invested (Note 2)		709,840
Cash with Local Government Investment Pool (Note 2)		487,399
Accounts receivable, net of allowance for doubtful accounts of $12,167 (Note 3)		355,375
Prepaid expenses		19,929
Net investment in lease receivable - current (Note 5)		2,225,000
Total current assets		4,371,680
Non-current assets, net of depreciation:		
Net investment in lease receivable (Note 5)		49,804,998
Unamortized bond issuance costs		318,942
Non-depreciable capital assets (Note 4)		5,827,153
Depreciable capital assets, net of accumulated depreciation (Note 4)		17,575,442
Total non-current assets		73,526,535
Total assets		77,898,215
LIABILITIES		
Current liabilities:		
Accounts payable		87,721
Customer deposit		36,047
Contractual obligations		449,090
Unearned parking revenue - Philip Morris project		195,833
DCLS payable		240,645
Deferred income		239,529
Advance rental payments		15,505
Long-term debt - current portion (Note 7)		3,157,692
Accrued EDA expense - current (Notes 7 & 11)		70,964
Total current liabilities		4,493,026
Non-current liabilities:		
Long-term debt (Note 7)		61,611,212
Accrued EDA expense (Notes 7 & 11)		72,391
Compensated absences (Note 7)		14,686
Total non-current liabilities		61,698,289
Total liabilities		66,191,315
NET ASSETS		
Invested in capital assets, net of related debt		11,381,905
Unrestricted		324,995
Total net assets	$	11,706,900

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, 2006

Operating revenues:	
Rental income	$ 2,802,539
Parking income	339,899
University and other support (Note 10)	45,010
Business support services	20,400
Interest income	41,332
Other income	48,998
Total operating revenues	3,298,178
Operating expenses:	
Salaries and benefits	851,552
Marketing and promotion	65,442
Occupancy costs	775,233
Administrative	122,551
Public Safety building - City of Richmond	1,879
Depreciation expense (Note 4)	511,051
Bad debt expense	-
Other expenses	1,065
Total operating expenses	2,328,773
Income from operations	969,405
Non-operating revenue/(expenses):	
DCLS project expenses	(47,055)
DCLS bond servicing fee	67,694
Federal earmark grant revenue	2,363
Federal earmark grant expenses	(2,322)
Philip Morris project revenue	358,315
VCUREF for guarantee on Biotech Five	(2,591)
VBDC in kind expense (Note 12)	(169,511)
EDA interest revenue	243
Interest revenue	2,564,906
Interest expense	(3,299,747)
Income from funds in trust	23,311
Miscellaneous non-operating revenue	(153,909)
Total non-operating activity	(658,303)
Change in net assets	311,102
Net assets - beginning of year	11,395,798
Net assets - end of year	$ 11,706,900

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, 2006

Cash flows from operating activities:	
Cash received from rent	$ 2,922,536
Cash received from parking	105,739
Cash received from university and other support	45,010
Cash received from business support services	24,623
Cash received from miscellaneous income	91,200
Payments for personnel expenses	(840,781)
Payments for marketing expenses	(70,248)
Payments for occupancy expenses	(957,558)
Payments for administrative expenses	(125,791)
Payments for other expenses	(2,944)
Net cash provided by operating activities	1,191,786
Cash flows from non-capital financing activities:	
Payments made on behalf of VBDC	(167,298)
Federal grant revenue	2,363
Federal grant expenses	(2,322)
Net cash used by noncapital financing activities	(167,257)
Cash flows from capital and related financing activities:	
DCLS bond servicing fee	67,694
Biotech five guarantee fees	(2,591)
Payments made on DCLS obligation	(118,064)
DCLS project expenses	(47,055)
EDA obligation payments	(73,478)
Proceeds from note payable	436,600
Fixed asset additions	(458,509)
Interest revenue	23,311
Philip Morris project revenue	453,295
CIP payments for Biotech eight	(28,764)
Interest paid on Biotech six	(2,564,906)
Principal paid on Biotech six	(2,125,000)
Interest paid - other	(738,509)
Principal paid - other	(850,000)
Principal and interest received from capital lease	4,689,906
Net cash used by capital and related financing activities	(1,336,070)
Net decrease in cash	(311,541)
Cash and cash equivalents - beginning of the year	2,082,917
Cash and cash equivalents - end of the year	$ 1,771,376

RECONCILIATION OF NET OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:

Operating income	$	969,405
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		511,051
VBDC rental income allocation		(2,213)
Parking revenue reimbursement		(235,000)
Decrease in accounts payable		(182,325)
Decrease in benefits payable		(181)
Decrease in operating accounts receivable		105,308
Decrease in customer deposits		(193)
Increase in deferred income		26,325
Decrease in prepaid rent		(3,297)
Increase in prepaid expenses		(8,046)
Increase in leave accrual		10,952
Net cash used by operating activities	$	1,191,786
Noncash capital and related financing activities:		
Construction-in-progress writeoff		(153,909)
Total non-cash capital and related financing activities	$	(153,909)

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 $45,010 for the year ended June 30, 2006.

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 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 five 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, 2006. 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. ACCOUNTS RECEIVABLE

The following table details account receivable at June 30, 2006:

	Receivable Balance
Rent receivable	$126,579
DCLS project receivable	240,645
Miscellaneous receivables	318
Total account receivable	367,542
Less: allowance for doubtful accounts	(12,167)
Net account receivable	$355,375

4. PROPERTY, PLANT AND EQUIPMENT

	Beginning Balance as of July 1, 2005	Acquired (Increased)	Deleted (Decreased)	Ending Balance as of June 30, 2006
Land	$ 4,931,937	$446,126	$ -	$ 5,378,063
Construction-in-progress	125,145	477,854	153,909	449,090
Buildings	24,107,571	-	-	24,107,571
Equipment	321,089	6,097	-	327,186
Leasehold improvements	1,454,748	6,286	-	1,461,034
Total at historical cost	30,940,490	936,363	153,909	31,722,944
Less accumulated depreciation for:				
Buildings	6,353,338	465,121	-	6,818,459
Equipment	88,670	24,223	-	112,893
Leasehold improvements	1,367,290	21,707		1,388,997
Total accumulated depreciation	7,809,298	511,051	-	8,320,349
Capital assets, net	$23,131,192	$425,312	$153,909	$23,402,595

The decrease in the Authority's construction-in-progress represented the write off of $153,909 for architectural fees and planning costs associated with the Biotech Eight project before the Philip Morris project. The increased expenses represented architectural fees associated with the new project known as Biotech Eight, which is a larger building and parking structure project previously described, and will be located at 737 North 5th street. The Authority has related liabilities in the amount of $449,090, shown as contractual obligations on the face of the financial statements.

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 $75,506,316 at June 30, 2006, which equals the remaining principal and interest due on the debt for the Biotech Six building. The financial statements include unearned income of $23,476,318 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, 2006:

	2006
Current portion:	
Minimum lease payments receivable	$ 4,693,500
Less: unearned revenue	(2,468,500)
Current net investment in lease receivable	2,225,000
Non-current portion:	
Minimum lease payments receivable	70,812,816

Less: unearned revenue	(21,007,818)
Non-current net investment in lease receivable	49,804,998
Total net investment in lease receivable	$52,029,998

At June 30, 2006, lease payments for each of the succeeding fiscal years are as follows:

Year	Amount
2007	$ 4,693,500
2008	4,697,144
2009	4,698,894
2010	4,703,619
2011	4,705,756
2012 – 2016	23,577,414
2017 – 2021	23,679,116
2022 – 2026	4,750,873
Total lease payments	$75,506,316

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 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.

7. NON-CURRENT LIABILITIES

The Authority's non-current liabilities consist of long-term debt, accrued EDA expenses (further described in Note 11), and other non-current liabilities.

Long-term debt of the Authority consists of the following bonds and notes payable at June 30, 2006:

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.	$ 9,785,000
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.	2,095,000
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.	52,030,000
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
Total long-term debt	$64,346,600

Long-term debt matures as follows:

Fiscal year	Principal	Interest	Total
2007	$ 3,130,000	$ 3,546,604	$ 6,676,604
2008	3,280,000	3,400,235	6,680,235
2009	3,876,600	3,247,739	7,124,339
2010	3,610,000	2,698,507	6,308,507
2011	3,795,000	2,525,335	6,320,335
2012-2016	22,095,000	9,289,779	31,384,779
2017-2021	19,925,000	3,754,116	23,679,116
2022-2027	4,635,000	115,875	4,750,875
Total	$64,346,600	$28,578,190	$92,924,790

A summary of changes in the Authority's non-current liabilities for the year ended June 30, 2006 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable:					
Commonwealth of Virginia lease revenue bonds	$66,885,000	$ -	$2,975,000	$63,910,000	$3,130,000
Unamortized bond premium	449,996	-	27,692	422,304	27,692
Notes payable:					
Deed of Trust	-	436,600	-	436,600	-
Total long-term debt	67,334,996	436,600	3,002,692	64,768,904	3,157,692
Accrued EDA expense	217,077	-	73,722	143,355	70,964
Compensated absences	3,734	10,952	-	14,686	-
Total long-term liabilities	$67,555,807	$447,552	$3,076,414	$64,926,945	$3,228,656

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. The Commonwealth's Comprehensive Annual Financial Report discloses the unfunded pension benefit obligation at June 30, 2006, 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 $88,619 for the year ended June 30, 2006. These contributions included the employee contribution assumed by the employer. For fiscal year 2006 the rate was 13.09 percent. Contributions to the VRS were calculated using a base salary amount of approximately $676,803 for the fiscal year ended June 30, 2006. The Authority's total payroll was approximately $701,257 for the year ended June 30, 2006.

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 Commonwealth's Comprehensive Annual Financial Report.

10. FINANCIAL SUPPORT

The Authority received $45,010 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.

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, 2006, $143,355 in principal remains outstanding.

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 2005 totaled $169,511.

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. PHILIP MORRIS PROJECT

During the fiscal year, the Research Park received an additional $282,131 from the Commonwealth of Virginia for the Philip Morris project. The Research Park closed out the project this year, and recognized $358,315 in revenue related to the project.

At June 30, 2006 the Research Park had $195,833 remaining in unearned parking revenue to recognize over the next fiscal year.

15. SUBSEQUENT EVENTS

The Biotech Eight project, previously described, will be undertaken through a joint venture between the Virginia Biotechnology Research Partnership Authority and private development interests as a limited liability corporation.

Multi-tenant buildings, by nature, have varying lease terms, conditions and multiple tenants, thereby making such projects impossible to finance using bonds without some sort of underlying credit enhancement. The Research Park has a growing need for additional space and further growth credited by the Philip Morris project is predicted. Approximately 45,000 square feet of the 76,000 square foot multi-tenant building is already pre-committed to prospective tenants consisting of private companies, entities of the Virginia Commonwealth University Health System and the state of Virginia. In addition, the Research Park has entered into a Memorandum of Understanding with J. Sargeant Reynolds Community College which intends to Master Lease 150 parking spaces for a term of ten years in the new parking structure because of significant parking needs that the college has at their downtown campus.

The Biotech Eight LLC will be a for-profit development entity that the Virginia Biotechnology Research Park will have a 40 percent equity interest in. The Research Park will contribute land and cash and will also enter into a management agreement for property management and leasing. The private sector partners will arrange 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 in excess of $22 million and the building will be available for occupancy in the second quarter of 2007.

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 which are not approved by the Board would result in a reduction of the Research Park's 40 percent equity, under the terms of the Operating Agreement.

Commonwealth of Virginia

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

August 11, 2006

The Honorable Timothy M. Kaine
Governor of Virginia

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

Board of Directors
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, 2006, 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, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 1 through 8 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 September 12, 2006.

AUDITOR OF PUBLIC ACCOUNTS

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