

**VIRGINIA BIOTECHNOLOGY RESEARCH
PARK AUTHORITY
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Virginia Biotechnology Research Park Authority for the year ended June 30, 2001, found:

- the financial statements are presented fairly, in accordance with accounting principles generally accepted in the United States of America;
- no internal control matters that we consider material weaknesses; and
- no instances of noncompliance required to be reported under Government Auditing Standards.

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November 15, 2001

Virginia Biotechnology Research Park Authority
800 East Leigh Street
Richmond, Virginia 23298-0127

We have audited the consolidated accounts and records of the **Virginia Biotechnology Research Park Authority** as of and for the year ended June 30, 2001, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We have audited the consolidated statement of financial position of the Virginia Biotechnology Research Park Authority, a component unit of the Commonwealth of Virginia as of June 30, 2001, and the related consolidated statements of activities and cash flows for the year then ended. The 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 Park Authority as of June 30, 2001, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In planning and performing our audit of the financial statements of the Virginia Biotechnology Research Park Authority as of and for the year ended June 30, 2001, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards.

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 assurance 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 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 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 controls over financial reporting and its operation that we consider to be material weaknesses.

Report Distribution

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 27, 2001.

AUDITOR OF PUBLIC ACCOUNTS

SAH:aom
aom:171

FINANCIAL STATEMENTS

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF FINANCIAL POSITION
As of June 30, 2001

ASSETS

Current assets:

Cash and cash equivalents (Note 2)	\$ 1,551,878
Cash with trustee (Note 2)	894,493
Local government investment pool (Note 2)	167,901
Accounts receivable (Note 3)	<u>756,439</u>

Total current assets	<u>3,370,711</u>
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Long-term assets:

Capital lease receivable - Biotech Two (Note 5)	43,254,559
Unamortized interest expense	1,652,114
Unamortized bond issue cost	1,215,574
Property, plant, and equipment, net of depreciation (Note 4)	<u>30,620,167</u>

Total long-term assets	<u>76,742,414</u>
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Total assets	<u>\$ 80,113,125</u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 746,323
Retainage payable	95,225
Accrued interest payable	35,072
Customer deposit	19,543
Deferred income	281,326
Treasury loan payable (Note 12)	7,000,000
Long-term debt - current portion (Note 7)	<u>1,655,000</u>

Total current liabilities	<u>9,832,489</u>
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Long-term liabilities:

Long-term debt (Note 7)	42,325,000
Unearned income - Biotech Two (Note 5)	<u>15,019,559</u>

Total long-term liabilities	<u>57,344,559</u>
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Total liabilities	67,177,048
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Unrestricted net assets	<u>12,936,077</u>
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Total liabilities and net assets	<u>\$ 80,113,125</u>
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The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2001

Operating revenues:	
Rent income	\$ 2,601,253
University support (Note 9)	439,873
Interest	36,459
Miscellaneous	<u>110,922</u>
Total operating revenues	<u>3,188,507</u>
Operating expenses:	
Salaries and benefits	540,049
Marketing and promotion	152,314
Occupancy costs	673,191
Administrative	182,428
Amortization expense	161,037
Depreciation expense	1,127,379
Other	<u>52,001</u>
Total operating expenses	<u>2,888,399</u>
Operating income	<u>300,108</u>
Nonoperating revenue (expenses):	
Interest revenue	1,529,984
Interest expense	(2,425,207)
Grant revenue (Note 10)	50,000
Grant expense (Note 10)	<u>(134,378)</u>
Total nonoperating revenue (expenses)	<u>(979,601)</u>
Decrease in net assets	(679,493)
Net assets - July 1, 2000	<u>13,615,570</u>
Net assets - June 30, 2001	<u><u>\$ 12,936,077</u></u>

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2001

Cash flows from operating activities:	
Cash received from tenants, including cash deposits	\$ 2,656,533
University support	439,873
Other revenues	147,381
Payments for employees	(575,275)
Payments for marketing expenses	(142,361)
Payments for occupancy expenses	(691,163)
Other expenses	(111,784)
	<u>1,723,204</u>
Net cash provided (used) by operating activities	<u>1,723,204</u>
Cash flows from capital and related financing activities:	
Proceeds from capital lease payment	960,000
Payment of principal on note	(1,580,000)
Proceeds from Treasury loan	7,000,000
Interest received	1,529,984
Interest paid	(2,448,591)
Proceeds from grant	50,000
Payments for grant expenses	(134,378)
Payments made on behalf of City of Richmond	(267,514)
Proceeds from note payable	125,000
Acquisition of fixed assets	(5,884,758)
	<u>(650,257)</u>
Net cash provided (used) by capital and related activities	<u>(650,257)</u>
Net increase in cash and cash equivalents	1,072,947
Cash and cash equivalents at July 1, 2000	<u>1,541,325</u>
Cash and cash equivalents at June 30, 2001	<u><u>\$ 2,614,272</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 300,108
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,127,379
Amortization expense	161,037
Increase in accounts payable	77,117
Increase in accounts receivable	(64,744)
Decrease in deferred income	116,858
Increase in customer deposit	3,166
Decrease in prepaid expenses	2,283
	<u>1,723,204</u>
Net cash provided by operating activities	<u><u>\$ 1,723,204</u></u>

The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Virginia Biotechnology Research Park Authority (Authority) have been prepared on the accrual basis. The Authority, which began operations effective July 1, 1993, provides a mechanism for financing construction of the biotechnology research park through bond issuances. The Virginia Biotechnology Research Park Corporation is an IRS 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 \$192,537 for the year ended June 30, 2001.

Per a Memorandum of Understanding between the Authority and Virginia Commonwealth University Real Estate and Foundation Services Department (Foundation), the Foundation provides accounting guidance, support and oversight of the Authority's financial statements and transactions.

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

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

Fixed assets are recorded at cost at the time of acquisition. Donated fixed assets are carried at market value at the date of contribution. Accumulated depreciation is reported on the Statement of Financial Position. Depreciation is computed on the straight-line basis over the estimated useful life of the property ranging from 2 to 30 years.

2. CASH AND CASH EQUIVALENTS

The Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 et seq. of the Code of Virginia or covered by federal depository insurance. 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.

3. ACCOUNTS RECEIVABLE

The following table details accounts receivable at June 30, 2001:

	<u>Receivable Balance</u>
Rent receivable	\$ 121,283
Due from the City of Richmond	558,508
Due from DCLS	57,917
Miscellaneous receivables	<u>18,731</u>
Total	<u>\$ 756,439</u>

The City of Richmond (City) has contracted to build a three-level parking structure within the Biotech Six structure under a condominium agreement. The \$2.9 million City Parking Deck Project is being fully funded and operated by the City. The amount due from the City is for parking structure construction costs incurred by the Authority at June 30, 2001, that the City has not yet reimbursed. The amount due from the Department of General Services' Division of Consolidated Laboratories Services (DCLS) is for costs related to the Biotech Six Project.

4. PROPERTY, PLANT, AND EQUIPMENT

	<u>Total Fixed Assets</u>	<u>Less Accumulated Depreciation</u>	<u>Net Fixed Assets</u>
Land	\$ 4,859,131	\$ -	\$ 4,859,131
Buildings	24,397,521	3,427,186	20,970,335
Equipment	270,029	19,478	250,551
Leasehold improvement	1,337,298	350,715	986,583
Construction in progress	<u>3,553,567</u>	<u>-</u>	<u>3,553,567</u>
Totals	<u>\$34,417,546</u>	<u>\$3,797,379</u>	<u>\$30,620,167</u>

The Authority's construction in progress represents expenses for architectural fees, planning and construction costs associated with the project known as Biotech Six. The Department of General Services' Division of Consolidated Laboratories Services will occupy the building. The leasehold improvement amount represents the build-out cost of expanded space for three tenants in the Biotech One building. Equipment represents the installation and purchase of a new HVAC system in the Biotech One building.

5. LEASE RECEIVABLE – BIOTECH TWO

The Authority has a capital lease agreement with the Department of General Services (DGS) for the Biotech Two building. The capital lease has a value of \$43,254,559 at June 30, 2001, which equals the remaining principal and interest due on the debt for the Biotech Two building. The financial statements include unearned income of \$15,019,559 related to the capital lease receivable for interest due in future periods.

On September 6, 2000, DGS transferred the lease rights and obligation to the Department of Criminal Justice Services (DCJS). Lease payments will continue through 2018 when title to the Biotech Two building will transfer to DCJS.

6. COMMITMENTS

At June 30, 2001, the Authority was committed to a construction contract totaling \$51.4 million for the Biotech Six Project.

7. LONG-TERM DEBT

Long-term debt of the Authority consists of the following bonds and notes payable at June 30, 2001:

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.	\$12,950,000
4.00 percent to 5.30 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech Two Project), Series 1996.	28,235,000
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.	2,670,000
7.00 percent deed of trust note payable dated February 15, 2001 due February 15, 2005 for the purchase of the properties at 310 – 318 East Leigh Street.	<u>125,000</u>
Total long-term debt	<u>\$43,980,000</u>

Long-term debt matures as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 1,655,000	\$ 2,350,553	\$ 4,005,553
2003	1,745,000	2,266,897	4,011,897
2004	1,830,000	2,177,306	4,007,306
2005	2,060,000	2,072,622	4,132,622
2006	2,060,000	1,951,867	4,011,867
Later Years	<u>34,630,000</u>	<u>12,250,785</u>	<u>46,880,785</u>
Totals	<u>\$ 43,980,000</u>	<u>\$ 23,070,030</u>	<u>\$67,050,030</u>

8. RETIREMENT

Employees of the Authority participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers a life insurance plan for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the Authority, has overall responsibility for contributions to these plans.

9. FINANCIAL SUPPORT

The Authority received \$439,873 from Virginia Commonwealth University (VCU) during fiscal year 2001. VCU made contributions of \$193,369 (unrestricted), \$207,504 (restricted for marketing and salaries), and \$39,000 (adjunct faculty contributions).

10. RELATED PARTY TRANSACTIONS

The Authority has entered into a lease agreement with Virginia Commonwealth University. On August 19, 1994, a Memorandum of Understanding was signed committing the 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.

During fiscal year 2001, the Authority established the Virginia Biosciences Development Center (Center). The Center is a private, not-for-profit corporation organized under 501(c)(3) of the Internal Revenue Code that provides office space and administrative support to start-up biotechnology companies. In fiscal year 2001, the Authority obtained a grant of \$50,000 from the Virginia Department of Business Assistance Services to support the establishment of the Center. The Authority was required to provide a match of \$75,000 under the terms of the grant. Expenses incurred by the Authority related to the operations of the Center during fiscal year 2001 totaled \$134,378.

11. PENDING GASB STATEMENT

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999, will be effective for the Virginia Biotechnology Research Park Authority for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The changes to the financial statements of the Authority will be minimal since its activity is accounted for as a proprietary fund. However, management of the Authority will be required to provide a management's discussion and analysis that gives readers an analysis of the Authority's overall financial position and results of operations including a comparison of current year results with the prior year. The Authority has completed its assessment of the changes required by this Statement and is preparing for implementation.

12. SUBSEQUENT EVENT

On July 15, 2001, the Authority issued \$60,010,000 in Series 2001 Lease Revenue Bonds to fund construction costs of the Biotech Six Project. Biotech Six will be a specialized laboratory, office and training facility built specifically for lease to the Department of General Services' Division of Consolidated Laboratories Services (DCLS). Construction of the building commenced May 2001, and completion is scheduled for second quarter of 2003. DCLS will occupy the space under a capital lease that terminates on September 1, 2021. Land acquisition, early planning, and construction costs were funded through an interest free \$7 million bridge loan provided by the Department of the Treasury in April 2001. Upon the bond closing on August 2, 2001, the temporary Treasury loan was fully repaid.

**Virginia Biotechnology Research Park Boards of Directors
As of June 30, 2001**

**VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
Richmond, Virginia**

Eugene P. Trani
Chairman

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Thomas J. Bliley, Jr.	Frank L. Hurley
Raymond H. Cypess	Timothy M. Kaine
Barry E. DuVal	G. Gilmer Minor, III

Robert T. Skunda
Executive Director

**VIRGINIA BIOTECHNOLOGY RESEARCH PARK CORPORATION BOARD
Richmond, Virginia**

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Chairman

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Phyllis L. Cothran	Gerald T. Halpin
Barry E. DuVal	Calvin D. Jamison
Charles H. Foster, Jr.	G. Gilmer Minor, III
Lawrence H. Framme, III	Frank S. Royal
Robert J. Grey, Jr.	James E. Sheffield

Robert T. Skunda
President and CEO