

**COMMONWEALTH HEALTH RESEARCH BOARD
RICHMOND, VIRGINIA**

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



AUDIT SUMMARY

Our audit of the Commonwealth Health Research Board for the year ended June 30, 2001, found:

- the financial statements are presented fairly, in all material respects;
- no material weaknesses in the internal controls tested; and
- no instances of noncompliance with laws and regulations that are required to be reported.

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January 14, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the accounts and records of the **Commonwealth Health Research Board** 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 FINANCIAL STATEMENTS

We have audited the balance sheet of the Commonwealth Health Research Board, a component unit of the Commonwealth of Virginia, as of June 30, 2001, and the related statement of revenues, expenses, and changes in fund balance and statement of cash flows for the year then ended. These financial statements are the responsibility of the Board'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 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 Commonwealth Health Research Board as of June 30, 2001, and the revenues,

expenses, and changes in fund balance 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 Commonwealth Health Research Board 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 Board's financial statements are free of material misstatement, we performed tests of 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 Board'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 over financial reporting 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 statement being audited may occur and not be detected promptly by employees in the normal course of performing their duties. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The "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 and the Commonwealth Health Research Board members, 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.

AUDITOR OF PUBLIC ACCOUNTS

JBS:whb
whb:24

FINANCIAL STATEMENTS

COMMONWEALTH HEALTH RESEARCH BOARD
BALANCE SHEET
As of June 30, 2001

Assets:

Cash with the Treasurer of Virginia	\$ 18,857
Investments (Note 2)	<u>27,627,536</u>

Total assets	<u><u>\$ 27,646,393</u></u>
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Fund balances:

Reserved (Note 3)	\$ 22,415,427
Unreserved (Note 4)	<u>5,230,966</u>

Total fund balances	<u><u>\$ 27,646,393</u></u>
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The accompanying notes are an integral part of this financial statement.

COMMONWEALTH HEALTH RESEARCH BOARD
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2001

Operating revenues:

Interest and dividends (net of administrative fees) (Note 4)	\$ 240,925
Net decrease in fair value of investments	<u>(1,620,153)</u>

Total operating revenues	<u>(1,379,228)</u>
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Operating expenses:

Grant awards (net of returned awards)	419,815
Consultant fees and expenses	1,190
Board travel	2,950
Printing	<u>1,487</u>

Total operating expenses	<u>425,442</u>
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Net operating income (loss)	(1,804,670)
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Fund balance - July 1, 2000 - As adjusted (Note 5)	<u>29,451,063</u>
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Fund balance - June 30, 2001	<u><u>\$ 27,646,393</u></u>
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The accompanying notes are an integral part of this financial statement.

COMMONWEALTH HEALTH RESEARCH BOARD
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2001

Cash flows from operating activities:	
Payments to suppliers for goods and services	\$ (8,568)
Grant award returned by recipient	55,755
Program grant disbursements	<u>(475,570)</u>
Net cash provided by (used for) operating activities	<u>(428,383)</u>
Cash flows from investing activities:	
Proceeds from redemptions of investments	<u>430,000</u>
Net increase in cash and cash equivalents	1,617
Cash, July 1, 2000	<u>17,240</u>
Cash, June 30, 2001	<u><u>\$ 18,857</u></u>
Reconciliation of operating income	
to net cash provided by operating activities:	
Operating income (loss)	\$ (1,804,670)
Adjustments to reconcile operating income to net	
cash provided by (used for) operating activities:	
Interest and dividends (net of administrative fees)	(240,925)
Net decrease in fair value of investments	1,620,153
Increase (decrease) in accounts payable	<u>(2,941)</u>
Net cash provided by (used for) operating activities	<u><u>\$ (428,383)</u></u>

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

NOTES TO FINANCIAL STATEMENTS

COMMONWEALTH HEALTH RESEARCH BOARD

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Commonwealth Health Research Board (the Board) was created by Chapter 22, Title 23, of the Code of Virginia during the 1997 session of the General Assembly. The Board was established to provide financial support, in the form of grants, donations, or other assistance, for research efforts that have the potential of maximizing human health benefits for the citizens of the Commonwealth. The source of support for this research is the Commonwealth Health Research Fund (the Fund). The Fund was created from the proceeds of the sale of Trigon stock and its subsequent reinvestment.

When Blue Cross and Blue Shield of Virginia converted from a mutual insurance company to a corporation, Trigon Healthcare, Incorporated, the Commonwealth received stock in the new company as a part of the conversion. The Commonwealth received the stock on August 5, 1997, and sold it systematically thereafter. At the direction of the General Assembly, the Commonwealth placed the proceeds into the Commonwealth Health Research Fund.

The Board 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 authority.

The Board oversees the award and administration of the grants, the State Council of Higher Education provides administrative and accounting support, and the Virginia Retirement System invests and manages the funds.

B. Fund Structure

Transactions related to assets held in a trust or agency capacity are accounted for in fiduciary funds. The transactions of the Commonwealth Health Research Fund are accounted for in a non-expendable trust fund, a type of fiduciary fund, because the fund's principal must be maintained intact and only the fund's income is available to support grants for human health research benefiting the Commonwealth's citizens and other Board expenses.

C. Basis of Accounting

The accompanying financial statements are reported on the accrual basis of accounting under which revenues are recognized in the period in which they are earned and expenses are recognized when the liability is incurred. The cash basis of accounting is used during the year. The financial statements are prepared on the accrual basis at the end of the fiscal year.

2. CASH AND INVESTMENTS

The Board of Trustees of the Virginia Retirement System has been given full power to invest, reinvest, and manage the assets of the Commonwealth Health Research Fund on behalf of the Commonwealth Health Research Board in accordance with Section 51.1-124.36 of the Code of Virginia. This section requires the Board of Trustees to invest the assets of the Fund with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board of Trustees must also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.

Details of the Fund's investments are presented below. At June 30, 2001, the Fund's investments were held in a bond market fund and a securities index fund, which are open ended funds, not categorized by credit risk since they are not evidenced by securities that exist in physical or book entry form.

	<u>Fair Value</u>
Cash with the Treasurer of Virginia	<u>\$ 18,857</u>
Investments:	
Equity Index Fund	\$ 19,632,721
Bond Market Fund	<u>7,994,815</u>
Total Investments	<u>\$ 27,627,536</u>
Total Cash and Investments	<u>\$ 27,646,393</u>

3. FUND BALANCE RESERVATIONS

Reserved fund balances indicate that portion of fund balance that is not available to fund operations. Section 23-284 E of the Code of Virginia allows the Board to only expend the income earned on the Fund for the purposes permitted by the chapter. The outstanding fund balance must remain intact. As of June 30, 2001, fund balance reservations totaled \$22,415,427.

4. INCOME AND OPERATING EXPENSES

For the purpose of grant distribution and other operating expenses, Section 23-284 E of the Code of Virginia defines income as including but not being limited to interest, dividends, fees, and other earnings, from the investment, reinvestment, and management of the Fund, net of any administrative fee. Income amounts, as defined, not spent in the year earned may be carried over to future years.

Income Available for Operating Expenses and to Carry Forward For the Year Ending June 30, 2001

Income carried forward from previous years	\$ 5,268,106
Add: Adjustment to beginning fund balance (Note 5)	<u>147,377</u>
Adjusted income carried forward from previous years	5,415,483
Income from interest and other realized sources (net of administrative fees)	<u>240,925</u>
Total income available for operating expenses	5,431,408
Less: total operating expenses	<u>(425,442)</u>
Income available to carry forward – Unrestricted Fund Balance	<u><u>\$ 5,230,966</u></u>

5. ADJUSTMENTS TO BEGINNING FUND BALANCE

On July 1, 2001, the Board implemented the provisions of Government Accounting Standards Board Statement 33, Accounting and Financial Reporting for Nonexchange Transactions. This standard requires the Board to recognize a liability for unpaid grant awards only when the researcher and the sponsoring institution meet all criteria for payment. Accordingly, unpaid grant awards of \$147,377 previously accrued as grant award expenses have been added back to beginning fund balance and income available to carry forward at July 1, 2000.

6. FUTURE GRANT OBLIGATIONS

When the Board makes grant awards, the researcher's sponsoring institution immediately receives 75 percent of the total award amount. Upon completion of the research and reporting of the results of the research to the Board, the sponsoring institution is eligible for reimbursement of remaining expenses, up to the total grant award. At June 30, 2001, the Board had obligated unpaid grant awards totaling \$356,913.

On June 12, 2001, the Board voted to award \$825,000 in awards to 13 medical and health researchers at Eastern Virginia Medical School, James Madison University, Sweet Briar College, the University of Virginia, Virginia Commonwealth University, and Virginia Tech. Initial payments representing 75 percent of the grant award or approximately \$618,750 were made in August 2001.

7. SURETY BOND

Certain employees of the State Council of Higher Education are responsible for maintaining the accounting records of the Board. The employees of the Council were covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management with liability limits of \$500,000 for each occurrence. Information relating to the Commonwealth's self-insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

COMMONWEALTH HEALTH RESEARCH BOARD
Richmond, Virginia

BOARD MEMBERS

Hunter B. Andrews, Chairman

David L. Bernd	Edward R. Parker
Robert P. McBride, III	Alson H. Smith, Jr.
R. Earl Nance	Jane H. Woods