

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

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of the Virginia Biotechnology Research Park Authority for the year ended June 30, 2002, found:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;
- an internal control matter that we consider a material weakness; and
- no instances of noncompliance required to be reported.

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November 12, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Biotechnology Research Park Authority

We have audited the accounts and records of the **Virginia Biotechnology Research Park Authority** as of and for the year ended June 30, 2002, 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 accompanying basic financial statements of the Virginia Biotechnology Research Park Authority, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2002, 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 Park Authority as of June 30, 2002, 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 six through eleven is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 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, 2002, 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 Virginia Biotechnology Research Park 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 Virginia Biotechnology Research Park 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Virginia Biotechnology Research Park Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition, entitled "Improve Controls over Financial Reporting" is described in the section titled "Internal Control Finding and Recommendation."

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider "Improve Controls over Financial Reporting" to be a material weakness.

The “Independent Auditor’s Report on Compliance and Internal Control over Financial Reporting” is intended solely for the information and use of the Governor and General Assembly of Virginia, Virginia Biotechnology Research Park Authority 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.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on December 16, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Improve Controls over Financial Reporting

The Virginia Biotechnology Research Park Authority (the Park) needs to continue to improve and strengthen both its financial reporting and record-keeping function. Our audit found several errors and inconsistencies in the recording and subsequent reporting of transactions that resulted in material adjustments to the Park's financial statements. One contributing factor is the lack of detailed accounting policies and procedures. Although the Park developed accounting procedures in March 2002, they do not contain sufficient detail to ensure consistent and proper recording of transactions in the financial system. For example, the Park's procedures do not include a chart of accounts and do not provide sufficient detail on transaction processing or reconciliation and closing procedures.

Overall, the Park needs to strengthen their financial reporting and record-keeping function. They should review and improve their current accounting policies and procedures by defining their chart of accounts, as well as providing sufficient detail on transaction processing and reconciliation and closing procedures. The Park's policies and procedures should address how to record transactions for activities that are unique to the Park, such as build-outs and the Park's relationship with the Virginia Biosciences Development Center. The Park also needs to ensure that adequate procedures exist for a proper supervisory review of critical transactions and processes. It is our understanding that the Park is continuing to work on developing a more detailed set of accounting policies and procedures, and has committed to have them in place by March 2003.

Finally, we recommend the Park review and evaluate the staffing and workload for the financial reporting function due to many new responsibilities that they assumed within the past year. The Park needs to address these areas not only to improve their annual financial statement report, but also to ensure that financial information used throughout the year for decision-making is reliable and consistent.

MANAGEMENT'S DISCUSSION AND ANALYSIS

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF JUNE 30, 2002

The management of the Virginia Biotechnology Research Park Authority (Authority) offers the readers of the Authority's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2002. We encourage the reader to consider this information presented here in conjunction with the financial statements and accompanying notes.

Summary of Organization and Business

The Authority is a political subdivision of the Commonwealth of Virginia, established in 1993 by an act of the Virginia General Assembly. The Authority provides a mechanism for financing construction of the Virginia Bio·Technology Research Park (Research Park) through bond issuances. The Virginia Bio·Technology Research 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 accompanying financial statements blend the operations of the Corporation with those of the Authority. Corporation revenues and expenses each totaled \$185,037 for fiscal year 2002.

The Board and staff of the Authority manage daily operations of the Research Park. The Research Park is a life sciences community affiliated with Virginia Commonwealth University that houses companies, research institutes, non-profits, and government laboratories on a 34-acre campus in downtown Richmond, Virginia. The Authority has as its mission to advance life sciences by promoting and commercializing scientific research, thereby, creating investment and jobs.

The Authority does not have taxing power and funds operations from lease and ancillary service revenues. The acquisition and construction of capital assets are funded by bond issuances, long-term notes payable, appropriations from the Commonwealth of Virginia, and contract support payments from Virginia Commonwealth University. The Authority also received assistance in previous years from the City of Richmond. The Research Park, as of June 30, 2002, was occupied by 33 private and non-profit companies, two state laboratories, and five VCU research institutes employing more than 840 individuals and filling more than 260,000 square feet of laboratory and office space in seven buildings.

HIGHLIGHTS

Financial Highlights

- Cash increased a net amount of \$33.5 million as a result of capital and related financing activities, including \$33 million held in trust for the Biotech Six project.
- Net assets of the Authority decreased \$579 thousand.
- Operating expenses increased \$176 thousand.

OVERVIEW OF ANNUAL FINANCIAL REPORT

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 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 on an accrual basis, including information about the type and amount of resources and obligations at June 30, 2002. 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 in net assets. The Statement of Cash Flows presents changes in cash and cash equivalents, as a result of 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 following schedule reflects the condensed Statement of Net Assets compared to the prior year.

	<u>2002</u>	<u>2001</u>	<u>Change</u>
Current and other assets	\$ 79,939,910	\$ 49,492,958	\$ 30,446,952
Capital assets - net	<u>53,067,243</u>	<u>30,620,167</u>	<u>22,447,076</u>
Total assets	<u>133,007,153</u>	<u>80,113,125</u>	<u>52,894,028</u>
Current and other liabilities	21,925,572	23,197,048	(1,271,476)
Long term debt	<u>98,725,000</u>	<u>43,980,000</u>	<u>54,745,000</u>
Total liabilities	<u>120,650,572</u>	<u>67,177,048</u>	<u>53,473,524</u>
Unrestricted net assets	<u>\$ 12,356,581</u>	<u>\$ 12,936,077</u>	<u>\$ (579,496)</u>

For more detailed information see the accompanying Statement of Net Assets.

The Authority's net assets decreased \$579,496. Long-term assets and other assets increased mainly as a result of the \$60,010,000 Series 2001 bond issue and related construction in progress.

The changes in net assets are summarized below:

	<u>Amount</u>
Net assets beginning of year	\$ 12,936,077
Net operating income	364,199
Interest revenue	2,490,323
Interest expense	(4,144,998)
Developer's fees	778,499
Grant revenue	40,000
Grant expense	<u>(107,519)</u>
Net assets end of year	<u><u>\$ 12,356,581</u></u>

Statement of Revenues, Expenses and Changes in Net Assets

The following schedule compares the revenues and expenses for the current and previous fiscal year.

	<u>2002</u>	<u>2001</u>	<u>Change</u>
REVENUES			
Operating revenue:			
Rent income	\$ 2,990,328	\$ 2,601,253	\$ 389,075
University support	386,687	439,873	(53,186)
Interest	21,753	36,459	(14,706)
Miscellaneous	<u>30,048</u>	<u>110,922</u>	<u>(80,874)</u>
Total operating revenues	<u>3,428,816</u>	<u>3,188,507</u>	<u>240,309</u>
EXPENSES			
Operating expenses:			
Salaries and benefits	648,456	540,049	108,407
Marketing and promotion	106,874	152,314	(45,440)
Occupancy costs	839,956	673,191	166,765
Administrative	111,893	182,428	(70,535)
Amortization expense	170,573	161,037	9,536
Depreciation expense	1,128,100	1,127,379	721
Other	<u>58,765</u>	<u>52,001</u>	<u>6,764</u>
Total operating expenses	<u>3,064,617</u>	<u>2,888,399</u>	<u>176,218</u>
Net operating revenues (expenses)	<u>364,199</u>	<u>300,108</u>	<u>64,091</u>
NON-OPERATING REVENUES			
Interest revenue	2,490,323	1,529,984	960,339
Interest expense	(4,144,998)	(2,425,207)	(1,719,791)
Developer's Fees	778,499	-	778,499
Grant revenue	40,000	50,000	(10,000)
Grant expense	(107,519)	(134,378)	26,859

Total non-operating expenses	<u>(943,695)</u>	<u>(979,601)</u>	<u>35,906</u>
Change in net assets	(579,496)	(679,493)	99,997
Net Assets - Beginning of Year	12,936,077	13,615,570	(679,493)
Net Assets - End of Year	<u>\$ 12,356,581</u>	<u>\$ 12,936,077</u>	<u>\$ (579,496)</u>

University support decreased \$53 thousand in accordance with the Authority's plan for reduction in University operating support. Rental income increased \$389 thousand as tenants occupied additional space and annual rent increases became effective. VCU continued to support the Authority through unoccupied space support in accordance with VCU's master lease on Biotech One.

Operating expenses were \$176,000 higher overall. Salaries and benefits increased \$108 thousand during fiscal year 2002 due to the first full year of employment of two new staff members, as well as regular salary increases and bonuses. All other expense categories with the exception of marketing and promotion and administrative expense increased, as well.

CAPITAL ASSETS AND LONG-TERM DEBT

The Authority began construction on May 1, 2001, of Biotech Six, a \$60 million project, which will house the Virginia Division of Consolidated Laboratory Services (DCLS). When completed in 2003, DCLS will occupy 191,000 square feet of laboratory space and employ 250 scientists, technicians, and administrative personnel. The Authority financed construction by the issuance of Series 2001 \$60,010,000 Lease Revenue Bonds. DCLS will handle debt service by making direct payments to the bond trustee; however, the Authority will reflect these balances in the financial statements. If the DCLS does not receive an appropriation of funds sufficient to make the lease payment for any year, the lease will automatically terminate upon depletion of previously appropriated fund; and the Authority, as lessor, may take possession of the property and sell or lease all or part of the property.

The Authority issued \$12 million of bonds in April 2002 as a conduit to finance construction of the new national headquarters of the United Network for Organ Sharing (UNOS). Designated as Biotech Seven, the new UNOS headquarters building will be an 80,000 square-foot facility which UNOS will own and occupy. The Authority will have a master lease up to 12,000 square feet of space from UNOS for subleasing to other Research Park companies. Construction commenced in September 2001, with completion set for December 2002.

Using funds appropriated in fiscal year 2000 by the Commonwealth of Virginia, the Authority acquired several parcels of land in the western parts of the Research Park near 4th and Jackson Streets. These sites will be utilized in future development projects. The following schedule summarizes Research Park properties and their occupancy.

Summary of Occupancy/Lease Intent			
<u>Buildings:</u>	<u>Number of</u> <u>Occupants</u>	<u>Leased</u> <u>Square Feet</u>	<u>Date Acquired/</u> <u>Constructed</u>
Biotech Center	44	8,131	1995
Biotech One	277	82,415	1996
Biotech Two	300	102,124	1998
Biotech Three ^(A)	98	31,124	1996
Biotech Four ^(A)	49	12,448	1996
Biotech Five	13	13,400	1999
Biotech Six ^(B)	225	191,000	2003
Biotech Seven ^(C)	250	80,000	2002
Public Safety Building ^(D)	8	2,926	1999
612-614 North 4th Street	<u>3</u>	<u>1,296</u>	1999
Total	<u>1,268</u>	<u>524,865</u>	

^(A) Property is owned by the VCU Real Estate Foundation

^(B) May 2003 occupancy date.

^(C) Dec 2002 occupancy date.

^(D) Space subleased from City of Richmond

SIGNIFICANT EVENTS

The Authority has an agreement with Chesterfield County for joint development of a satellite life sciences research park on 325 acres near the James River that will be appropriate for larger life sciences companies that want a relationship with the Research Park and VCU but need more space than is available downtown. The site will be known as the Virginia Biotechnology Research Park at Meadowville and will have the capacity for approximately 2 million square feet of office, laboratory, and manufacturing space.

The Authority has a similar agreement with Henrico County to designate areas of the White Oak Technology Park as another satellite of the Research Park. White Oak Technology Park is the location of Infineon, Hewlett Packard, and other Richmond area technology manufacturers.

On April 17, 2002, the Virginia General Assembly enacted legislation to provide \$2 million of funding to VCU for the expressed purpose of land acquisition for the Research Park. The Authority will acquire additional properties furthering the expansion of the Research Park during fiscal year 2003.

ADDITIONAL INFORMATION

The Authority has completed construction on six buildings, is constructing two others and is leasing space in several other facilities. When fully developed, the Research Park will contain 1.9 million square feet of research, office, and laboratory space in 18-20 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.

Subsequent Events

On October 3, 2002, the Authority purchased approximately 24,000 square feet of property within the 34-acre footprint of the Research Park. The property, purchased for approximately \$650 thousand through commercial debt, will be used for surface parking and is earmarked for future project development. Revenues from the parking lot will support the debt service.

On August 23, 2002, the Authority received notification that the U.S. Department of Economic Development Administration (EDA) will require repayment of \$993 thousand of a \$1 million EDA Financial Assistance Grant Award. The grant was awarded to the Authority in 1995 to partially fund construction of the Biotech One building. The EDA, upon a recent review of compliance with special award conditions related to compliance with the Davis-Bacon Act, has determined that the Authority was not in compliance with the required conditions. The Authority filed a formal written final appeal of the EDA's decision on August 30, 2002, the results of which are currently pending.

FINANCIAL STATEMENTS

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2002

ASSETS

Current assets:

Cash and cash equivalents (Note 2)	\$ 1,203,391
Cash with trustee (Note 2)	2,757,446
Accounts receivable (Note 3)	136,687
Capital lease receivable (Note 5)	2,433,154
Unamortized interest expense	91,776
Unamortized bond issue cost	78,797

Total current assets	6,701,251
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Noncurrent assets:

Cash with trustee (Note 2)	32,131,815
Capital lease receivable (Note 5)	38,387,227
Unamortized interest expense	1,468,562
Unamortized bond issue costs	1,251,055
Property, plant, and equipment, net of depreciation (Note 4)	53,067,243

Total noncurrent assets	126,305,902
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Total assets	\$ 133,007,153
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LIABILITIES

Current liabilities:

Accounts payable	\$ 223,841
Accounts payable - DCLS expenses	2,757,446
Retainage payable	1,668,793
Accrued interest payable	11,688
Customer deposits	26,807
Deferred rental income	41,617
Long-term debt - current portion (Note 8)	3,610,000
Unearned income - Biotech Two - current portion (Note 5)	1,388,154

Total current liabilities	9,728,346
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Noncurrent liabilities:

Long-term debt (Note 8)	98,725,000
Unearned income - Biotech Two (Note 5)	12,197,226

Total noncurrent liabilities	110,922,226
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Total liabilities	120,650,572
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NET ASSETS

Invested in capital assets, net of related debt	37,977,243
Unreserved	(25,620,662)

Total net assets	\$ 12,356,581
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The accompanying notes are an integral part of this financial statement.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2002

Operating revenues:	
Rental income	\$ 2,990,328
University support (Note 10)	386,687
Interest income	21,753
Miscellaneous	30,048
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Total operating revenues	3,428,816
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Operating expenses:	
Salaries and benefits	648,456
Marketing and promotion	106,874
Occupancy costs	839,956
Administrative	111,893
Amortization expense	170,573
Depreciation expense	1,128,100
Other expense	58,765
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Total operating expenses	3,064,617
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Income from operations	364,199
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Nonoperating revenues(expenses):	
Developer's fees	778,499
Interest revenue	2,490,323
Interest expense	(4,144,998)
Grant revenue (Note 11)	40,000
Grant expense (Note 11)	(107,519)
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Total nonoperating revenues(expenses)	(943,695)
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Decrease in net assets	(579,496)
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Total net assets - beginning	12,936,077
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Total net assets - ending	\$ 12,356,581
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The accompanying notes are an integral part of this financial statement.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

Cash flows from operating activities:	
Cash received from tenants	\$ 2,795,117
University support	386,687
Other revenues	51,801
Payments for employees	(648,456)
Payments for marketing expenses	(106,874)
Payments for occupancy expenses	(803,588)
Other expenses	(170,658)
Net cash provided by operating activities	<u>1,504,029</u>
Cash flows form noncapital financing activities:	
Grant revenue	40,000
Grant expense	(107,519)
Net cash used by noncapital financing activities	<u>(67,519)</u>
Cash flows from capital and related financing activities:	
Collections from DCLS	37,375
Collections from City of Richmond - parking deck project	545,143
Proceeds from developer's fees	778,499
Proceeds from capital lease payment	1,000,000
Payment of principal on note	(1,655,000)
Proceeds from issuance of long-term debt	60,010,000
Payment of Treasury loan	(7,000,000)
Interest received on funds held in trust	2,490,323
Interest paid on borrowings	(4,168,381)
Payment of bond issue costs	(193,075)
Acquisition of fixed assets	(19,803,014)
Net cash provided by capital and related activities	<u>32,041,870</u>
Net increase in cash and cash equivalents	33,478,380
Cash and cash equivalents at July 1, 2001	<u>2,614,272</u>
Cash and cash equivalents at June 30, 2002	<u><u>\$ 36,092,652</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 364,199
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,128,100
Amortization expense	170,573
Increase in accounts payable	36,368
Decrease in accounts receivable	37,234
Increase in customer deposits	7,264
Decrease in deferred rental income	(239,709)
Net cash provided by operating activities	<u><u>\$ 1,504,029</u></u>

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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 \$185,037 for the year ended June 30, 2002.

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.

B. Basis of Accounting

The financial statements of the Virginia Biotechnology Research Park Authority (Authority) have been prepared using the economic resources measurement focus and the accrual basis of accounting.

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 of the Commonwealth of Virginia, Virginia Commonwealth University or other contributed income directly supporting the operations or advancement of the Virginia Biotechnology Research Park; 3) revenue derived from ownership and management of parking surface lots within the footprint of the Virginia Biotechnology 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. Additionally, grant revenue received through a grant

from the Virginia Department of Business Assistance Services is considered as non-operating revenue as it is earmarked for the establishment of the Virginia Biosciences Development Center.

C. Asset Capitalization and Depreciation Method

Fixed assets are recorded at cost at the time of acquisition. Fixed assets with a value in excess of \$5,000 are capitalized. Donated fixed 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 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 2.2-4400, 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. Cash with the trustee represents bond proceeds held by trustees.

3. ACCOUNTS RECEIVABLE

The following table details accounts receivable at June 30, 2002:

	<u>Receivable Balance</u>
Rent receivable	\$ 69,316
Due from the City of Richmond	13,365
Due from DCLS	20,542
Miscellaneous receivables	<u>33,464</u>
Total	<u>\$ 136,687</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, 2002, 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

	Beginning Balance as of July 1, 2001	Acquired (Increased)	Deleted (Decreased)	Ending Balance as of June 30, 2002
Land	\$ 4,859,131	\$ 155,046	\$2,100,000	\$ 2,914,177
Buildings	24,397,521	-	-	24,397,521
Equipment	270,029	-	-	270,029
Leasehold Improvements	1,337,298	12,582	-	1,349,880
Construction in Progress	<u>3,553,567</u>	<u>25,513,254</u>	<u>-</u>	<u>29,066,821</u>
Total at historical cost	<u>34,417,546</u>	<u>25,680,882</u>	<u>2,100,000</u>	<u>57,998,428</u>
Less accumulated depreciation for:				
Buildings	3,427,186	841,855	-	4,269,041
Equipment	19,478	23,990	-	43,468
Leasehold improvements	<u>350,715</u>	<u>267,961</u>	<u>-</u>	<u>618,676</u>
Capital assets, net	<u>\$ 30,620,167</u>	<u>\$26,814,418</u>	<u>\$2,100,000</u>	<u>\$ 53,067,243</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. LEASES RECEIVABLE

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 \$40,820,381 at June 30, 2002, which equals the remaining principal and interest due on the debt for the Biotech Two building. The financial statements include unearned income of \$13,585,380 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.

The Authority also has an operating lease with Ondeo Degremont, Inc. on the Biotech Five building which expires on October 31, 2013. Future lease payments total \$4,408,749.

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 will be an office facility built specifically for lease to the United Network for Organ Sharing (UNOS). Construction of the

building commenced March 2002, and completion is scheduled for December 2002. 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. COMMITMENTS

At June 30, 2002, the Authority was committed to a construction contract totaling \$51.4 million for the Biotech Six Project. Construction began in May 2001 and is expected to be completed in 2003.

8. LONG-TERM DEBT

Long-term debt of the Authority consists of the following bonds and notes payable at June 30, 2002:

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.	\$ 12,385,000
4.00 percent to 5.30 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech Two Project), Series 1996.	27,235,000
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.	2,580,000
4.00 percent to 5.00 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Consolidated Laboratories Project), Series 2001.	60,010,000
7.00 percent deed of trust note payable dated February 15, 2002 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>\$102,335,000</u>

Long-term debt matures as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 3,610,000	\$ 5,088,004	\$ 8,698,004
2004	3,780,000	4,912,361	8,692,361
2005	4,100,000	4,723,227	8,823,227
2006	4,185,000	4,516,773	8,701,773
2007	4,405,000	4,303,530	8,708,530
2008-2012	25,920,000	18,066,266	43,986,266
2013-2017	31,210,000	10,406,902	41,616,902
2018-2022	<u>25,125,000</u>	<u>2,950,400</u>	<u>28,075,400</u>
Totals	<u>\$ 102,335,000</u>	<u>\$ 54,967,463</u>	<u>\$157,302,463</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable:					
Commonwealth of Virginia Lease Revenue Bonds	\$ 43,855,000	\$ 60,010,000	\$ 1,655,000	\$102,210,000	\$ 3,610,000
Notes payable:					
Deed of Trust	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>125,000</u>	<u>-</u>
Total	<u>\$ 43,980,000</u>	<u>\$ 60,010,000</u>	<u>\$ 1,655,000</u>	<u>\$102,335,000</u>	<u>\$ 3,610,000</u>

9. 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.

10. FINANCIAL SUPPORT

The Authority received \$386,687 from Virginia Commonwealth University (VCU) during fiscal year 2002. VCU made contributions of \$157,401 (unrestricted), \$188,336 (restricted for marketing and salaries), and \$40,950 (adjunct faculty contributions).

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.

11. RELATED PARTY TRANSACTIONS

During fiscal year 2002, 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 2002, the Authority obtained a grant of \$40,000 from the Virginia Department of Business Assistance Services to support the establishment of the Center. The Authority was required to provide a match of \$40,000 under the terms of the grant. Expenses incurred by the Authority related to the operations of the Center during fiscal year 2002 totaled \$107,519.

12. CONTINGENT LIABILITY

The Authority is currently involved in a dispute brought by the Economic Development Administration related to grant funds received for construction costs. The Authority lost the first of two possible appeals with the EDA, however the Authority was allowed to submit additional information in a second and final appeal, which was filed on September 17, 2002. The maximum liability of the Authority related to this dispute is \$1,000,000.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK BOARDS OF DIRECTORS

As of June 30, 2002

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