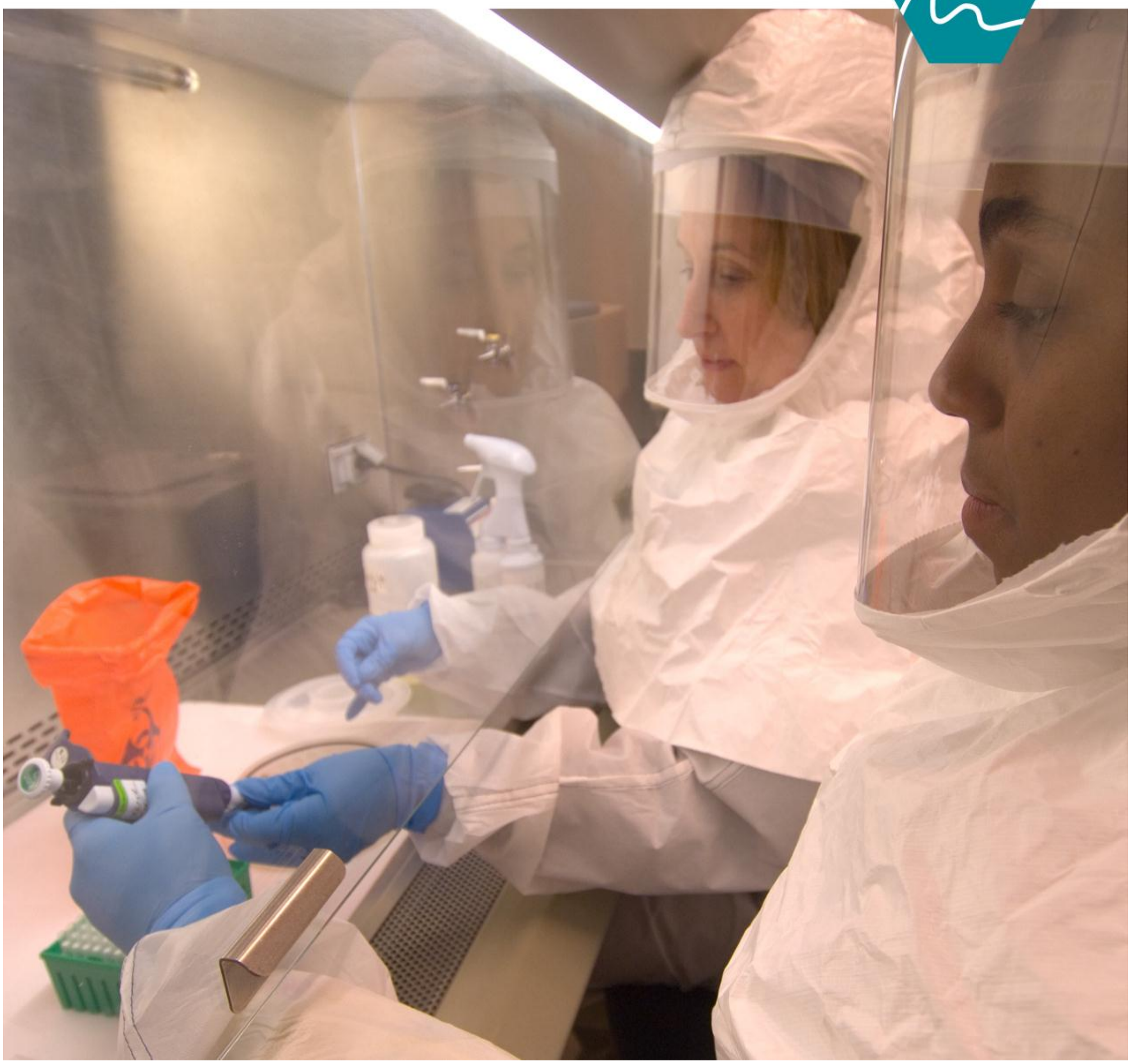
# Virginia Biotechnology Research Partnership Authority

FINANCIAL STATEMENTS
JUNE 30, 2012



# Comprehensive Annual Financial Report

For The

# Virginia Biotechnology Research Partnership Authority

A Component Unit of the Commonwealth of Virginia

## For The Fiscal Year Ended
## June 30, 2012

Prepared by the Director of Finance and Human Resources of the
Virginia Biotechnology Research Partnership Authority

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# *Introductory Section*

VIRGINIA BIO•TECHNOLOGY
RESEARCH PARK
800 East Leigh Street • Richmond, Virginia 23219-1534
Tel (804) 828-5390 • Fax (804) 828-8566
Web: http://www. vabiotech.com

September 18, 2012

**To the Authority and Corporation Boards and Stakeholders:**

July 1, 2012 marked the beginning of the second decade of the Research Park Authority's existence and the end of the nineteenth year of operations. During this time, the Authority has been executing the vision of creating Virginia's premier development bringing together life sciences research and commerce, and making the Commonwealth competitive with other national and global centers of biotechnology. This past fiscal year marked a turning point for the planned transition from being the primary developer and manager of the real estate which comprises the Park, to focusing on building a strong and cohesive scientific community which continues to support economic development and public education.

*Changing the Direction*

The most significant event of this past fiscal year was the sale of Biotech One and Biotech Center to Virginia Commonwealth University (VCU). VCU has been the principal supporter and financial contributor to the Park over the past two decades by providing operating support, land, leasing of space and the Master Lease on Biotech One that served as the necessary credit enhancement for the bonds. With their increasing occupancy of Biotech One and need for more space for growing research and administrative activities on the MCV Campus, it was determined that a sale of the building to VCU was the best outcome for both the Park and the university. The closing occurred in late November, four months later than was originally anticipated, due to a delay in receiving approval from the U.S. Department of Commerce which had provided a $1 million grant toward the build-out of space in Biotech One in 1994. The sale resulted in a cash transfer in the amount of $4.5 million to the Authority and elimination of the debt (and asset) from the Authority's Balance Sheet. The Authority also entered into a 30-year lease of the Biotech Center for $1 per year, with the right to sublease and manage the incubator laboratories and offices, as well as the common areas, under an arrangement where the Authority will retain all sublease revenues and pay VCU for its pro-rata share of operating expenses for the Center.

The sale of Biotech One and the Center marks a strategic decision by the Boards of the Research Park to, over time; begin to exit the real estate equity holdings and property management responsibilities. Recovering the equity in assets which have appreciated in value will allow the Authority to begin to supplement its operating revenues through investments and to potentially redeploy some of these funds for new and expanded activities in the future.

*Biotech 8 Expansion Project*

Another significant event of 2012 was Health Diagnostic Laboratory, Inc's. (HDL) decision to remain and expand in the Research Park. HDL started in the Park's incubator facility in July 2009 with less than a dozen employees. HDL is a clinical diagnostic lab and a "disease management" health care company. They moved into 8,500 square feet of space on the first floor of Biotech 8 in early 2010, and have grown at a dramatic rate. Today they have over 500 employees and are the largest tenant in Biotech 8 with over 42,000 square feet of leased space. HDL has committed to remain in the Park and has leased a new 112,000 square foot, six-story lab and office building that is being built on the site of the former Biotech 3, which was acquired from the VCU Real Estate Foundation and demolished to make way for the expansion. The new building and expansion of the parking structure, which added 185 spaces, is a $28 million project and will bring HDL's total leasehold interest in excess of 150,000 square feet and will allow them to add up to 300 new jobs.

The Authority is an equity partner in Biotech 8 LLC, the developer and owner of the Biotech 8 and expansion project. With the adjustment of equity interest of the partners in Biotech 8 LLC, the Authority went from a 39% equity position to a 15.6% position of a combined project with an estimated value of $55 million. As a limited partner, the Authority's assets are unencumbered and the Park has no leasing or property management responsibilities. In December, the Authority received $295,080 which represented the repayment of the principle on a loan from the Authority to the Biotech 8 LLC, plus interest, in addition to the preferred return under the restructured Biotech 8 LLC operating agreement approved effective January 1, 2008. Additionally, the Authority received distributions totaling $148,618 in the second half of the year. Once the Biotech 8 expansion project is fully occupied by HDL, the project is expected to generate approximately $350,000 per year in positive cash flow under the Authority's current equity position.

A planned second phase of expansion of 100,000 square feet is already in design and would be built on the site of the current Biotech 5 building. This will also be leased by HDL and when completed, would bring their total occupancy to more than 250,000 square feet. In June, the Authority Board approved an option agreement granting the Biotech 8 LLC the right to purchase Biotech 5 for the sum of $2,350,000, if exercised prior to December 31, 2014. Based upon the final value of the second expansion project, the current Biotech 8 LLC Partnership Agreement will need to be revised which will result in a future redistribution of the current equity of all partners. This will likely not happen until 2013 when HDL executes a pre-lease commitment for the second phase, and the final pricing and financing arrangements are in place. It is expected that the Biotech 8 project will ultimately be sold to an institutional investor at some point, allowing all of the partners in Biotech 8 LLC to recover their equity and appreciation in the project, consistent with the changing direction of the Park noted above.

*Other FY 2012 Highlights*

There were several other significant accomplishments, both financial and operational, during the past fiscal year, including:

- The bonds on Biotech 5 were fully paid off by the Authority in November, which will result in a positive annual cash flow of approximately $330,600;
- The Authority paid down the principle on the line of credit with Wells Fargo Bank by $847,400 reducing the outstanding credit line balance as of July 1, 2012 to $1,853,437;
- The Authority opened a $4 million investment account with the CommonFund, Asset Management Fund, Inc. on June 29. After evaluation, the Boards approved a conservative 60/40 investment strategy in equity and fixed income funds and also designated that $1.5 million of the

total amounts invested be reserved for payment of future benefits and obligations of the Authority under the Virginia Retirement System in the event such reserves are needed in order to fund benefits at any point in the future;

- The Authority ended the year with a cash balance of $1,364,886; and,
- The General Assembly approved $250,000 per year over the FY 2013-14 Biennium in operating support for the Virginia Biotechnology Research Park, in recognition that the Park has made significant contributions to the Commonwealth's economic development accomplishments and has been largely self- funded over the past decade.

*Building a Scientific Community*

Successful research parks and bioscience clusters have two things in common: a critical mass of companies, institutes and organizations bound by innovation and advancement in the life sciences, and secondly a strong identity. While we work to attain financial metrics and operational objectives, we strongly embrace our responsibility to be the entity that continues to build, maintain and support the sense of scientific community that makes the Virginia Biotechnology Research Park a unique and attractive location for new companies and scientists and the Commonwealth's premier example of life sciences competitiveness. Through programs, communications, events and partnerships, the Park is regularly engaged in bringing together the companies, non-profits, research institutes and government laboratories located in the Park, thereby encouraging introductions and fostering potential collaboration.

In addition, the Park is visible throughout the community and region in a number of ways, including major events like the Ukrop's 10K and Massey Challenge, Heart Ball, and other events which are linked with improving the lives and well-being of citizens and our neighborhoods. The Park regularly hosts school groups and organizations interested in visiting to learn more about science and technology and stimulating interest in science education.

*In Conclusion*

The Virginia Biotechnology Research Park has quietly, but steadily emerged to become a recognized and competitive national and global center for the life sciences industry, supporting goals articulated in the Commonwealth's statewide economic development strategy in 1994, "*Opportunity Virginia*". The biotechnology revolution promises to be as significant a driver of innovation and economic expansion of the Twenty-first Century as the computer science revolution was to the last half of the previous century. Virginia is poised to participate in the benefits of these advancements as a result of the Research Park having reached its current stage of development. Much more can be accomplished and the future for both the Authority and Research Park are indeed bright.

Sincerely,

Robert T. Skunda

Robert T. Skunda
President, CEO and Executive Director

**VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY**
(As of June 30, 2012)

Michael Rao, Chair
Benjamin J. Lambert III, Vice Chair
Samuel B. Hunter, Secretary
Ronald D. Wright, Treasurer
Robert T. Skunda, Executive Director

Jim Cheng
Dwight C. Jones
Craig R. Smith
Zobair M. Younossi
Aiguo Wu

**VIRGINIA BIOTECHONOLOGY RESEARCH PARK CORPORATION**
(As of June 30, 2012)

Michael Rao, Chair
Charles H. Foster Jr., Vice Chair
Samuel B. Hunter, Secretary
Ronald D. Wright, Treasurer
Robert T. Skunda, President and CEO

| | |
|---|---|
| Jim Cheng | Dwight C. Jones |
| Donna Owens Cox | Carlton E. Miller |
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| Cecil R. Harris, Jr. | James J. L. Stegmaier |
| G. Scott Hetzer | James A. Strickland |
| Virgil R. Hazelett | William H. Weirich |
| William S. White | Patricia M. Woolsey |

# *Financial Section*

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, 2012. Please read it in conjunction with the Authority's financial statements and notes to financial statements.

About the Authority

The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth) created pursuant to Chapter 946, Virginia Acts of Assembly of 1993, as amended by Chapter 731, Virginia Acts of Assembly of 2000, and Chapter 788, Virginia Acts of Assembly of 2005. The Authority provides a mechanism for financing construction of the Virginia Biotechnology Research Park (Research Park) through bonds and other authorized means and contracting for goods and services. The Park Corporation (Corporation) is an IRS Code Section 501(c) (3) corporation and is organized and operated exclusively for scientific, educational, and charitable purposes. The results of operations of the Corporation are presented in blended format in the financial statements of the Authority. The Corporation had no revenues or expenses for fiscal year 2012.

The Board and staff of the Authority manage daily operations of the Research Park. The Research Park is a life sciences community adjacent to the Virginia Commonwealth University Medical Center that houses private sector companies, research institutes, non-profits, and government laboratories on a 34-acre campus in downtown Richmond, Virginia. The mission of the Authority is to advance life sciences by promoting scientific research and economic development through the attraction and creation of new jobs and companies.

The Authority does not have taxing powers. Operations are funded from lease and ancillary service revenues. Bond issuances, long-term notes payable, line of credit debt, appropriations from the Commonwealth, and contract support payments from Virginia Commonwealth University have funded the acquisition and construction of capital assets. The Authority has also received capital funding in previous years through bonds issued by the City of Richmond. The Research Park, as of June 30, 2012, was occupied by over 60 private and non-profit companies, state laboratories and offices, and research institutes/administrative functions of Virginia Commonwealth University and VCU Health System, filling approximately 1,100,000 square feet of laboratory and office space in nine buildings and employing more than 2,000 researchers, scientists, engineers and support personnel.

In 2005, the Authority assembled and sold land within the Research Park to Philip Morris USA for the development of a new global Center for Research and Technology. The Center's capital cost was $350 million and employs approximately 600 individuals. Now renamed the Altria Center for Research and Technology, this is the largest single investment in the history of the Research Park and the largest single private sector investment in the City of Richmond.

With completion of the Altria Center for Research and Technology, the Research Park is now two-thirds developed.

Biotech Eight is a multi-tenant building located within the Research Park at 737 North 5th Street in the location of the former Biotech Four. Biotech Eight is three stories with 76,300 square feet of space, and has an adjacent 299-space parking structure. The project is owned by Biotech Eight, LLC, a private entity. Biotech Eight, LLC is in the process of expansion to accommodate Health Diagnostic Laboratory, Inc., one of the tenants in Biotech Eight. The expansion of Biotech Eight will occur in two phases and will result in a new 6-story, 212,000 square foot wet-dry laboratory and office building for Health Diagnostic Laboratory, Inc. Phase I will be constructed on the site of the former Biotech Three building and will connect to the existing Biotech Eight building at the second and third floors, allowing contiguous expansion of HDL's existing operations in the 40,000 square feet of space the company occupies in the current Biotech Eight building. In addition to the building expansion, Phase I has added two more parking levels and 185 additional spaces to the parking structure on Navy Hill Drive. Phase II of the expansion will occur on the site of the existing Biotech Five building and will carry out the completion of the six story laboratory/office facility fronting East Jackson Street for Health Diagnostic Laboratory, Inc.'s occupancy.

When fully developed, the Research Park will contain approximately 1.75 million square feet of research, office and laboratory space in 10-12 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. Additionally, through the Virginia Biotechnology Development Center, the Park has a relationship with Hanover County in an agreement to manage the Dominion Resources Greentech Incubator, an alternative clean energy innovation center.

<u>Authority Highlights</u>

- Sale of Biotech One and Center completed November 2011, bringing $4.5 million in cash to the Authority.
- Opened a $4 million Investment account with Commonfund Asset Management Company June 30, 2012.
- Biotech 8 LLC investment brought cash flows of $409,502.
- Biotech five bonds paid in full bringing an annual positive cash flow of $330,600.
- Principle on Line of Credit paid down $847,400.

- Entered into a new partnership with Bioling, LLC whose purpose is to develop, own, lease and manage real estate, and to engage in related or incidental activities, including owning interests in the other entities that either directly or indirectly engage in such activities.
- Beginning in February 2010, the Boards of Directors of the Virginia Biotechnology Research Partnership and Authority and Corporation, initiated a discussion regarding the need to update the Park's Strategic Plan, which was prepared and adopted before the global economic downturn which began in the late summer of 2008. Anticipated budget shortfalls at all levels of government, coupled with a significant contraction in both the residential and commercial real estate markets, and continued lack of capital and liquidity to finance new company formation and expansions has created a new environment for the Research Park and economic development initiatives in general. This process is expected to be a continuing and in-depth topic of discussion by the Boards and management over the course of future board meetings in the 2012-13 fiscal years.
- In December 2010, by prior authorization of the Authority Board, the Virginia Tobacco and Health Research Repository, Inc. (VTHRR) was formed as a new Virginia non-profit, non-stock corporation. The purpose of VTHRR is to make data and research available to researchers, research institutions, regulatory agencies and companies which will be helpful in assessing the harm and health effects of tobacco usage and smoking. Upon formation, the VTHRR took possession of the Total Exposure Study (TES) an asset which was contributed by Altria, consisting of a large multi-site investigational study of over 5,000 subjects, including both smokers and non-smokers, carried out in 2002-2003. Also included with the dataset which includes information on health, socio-demographic and exposure to tobacco by all participants, is a bio-repository consisting of over 21,000 biological specimens obtained from the study group by informed consent for research purposes. In April 2012, VTHRR entered into an agreement with SRI International to transfer the TES to their Center for Drug studies, Biosciences Division in Harrisonburg, Virginia. SRI will maintain, curate and make the bio-samples and TES data available to the research community. The VTHRR is governed by an independent Board of Directors.

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, 2012. The Statement of Revenues, Expenses, and Changes in Net Assets present the results of the

Authority's operating and non-operating activities and provide 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 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, 2012 and 2011 are as follows:

Statement of Net Assets, as of June 30, 2012 and 2011

| | 2012 | 2011 | Value of Change | Percentage Of Change |
|---|---|---|---|---|
| Assets: | | | | |
| Current and other assets | $ 42,816,668 | $ 42,611,084 | $ 205,584 | 0% |
| Capital assets, net | 5,444,614 | 20,738,136 | (15,293,522) | (74%) |
| Total assets | 48,261,282 | 63,349,220 | (15,087,938) | (24%) |
| Liabilities: | | | | |
| Current and other liabilities | 4,003,389 | 7,369,119 | (3,365,730) | (46%) |
| Long-term liabilities | 35,300,094 | 42,471,659 | (7,171,565) | (17%) |
| Total liabilities | 39,303,483 | 49,840,778 | (10,537,295) | (21%) |
| Net assets: | | | | |
| Invested in capital assets, net | 3,591,177 | 11,305,428 | (7,714,251) | (68%) |
| Unrestricted | 5,366,622 | 2,203,014 | 3,163,608 | 144% |
| Total net assets | $ 8,957,799 | $ 13,508,442 | $ (4,550,643) | (34%) |

The Authority's total assets decreased twenty-four percent due mainly to the sale of Biotech One and Biotech Center. Total liabilities decreased twenty-one percent from the sale of Biotech One and Biotech Center, as well as payoff of Biotech five and payments made on the line of credit. The total assets of the Authority exceeded its liabilities by $8.95 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 years ended June 30, 2012 and 2011 are as follows:

Statement of Revenues, Expenses, and Changes in Net Assets
for the years ended June 30, 2012 and 2011

| | 2012 | 2011 | Value of Change | Percentage Of Change |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Rental income | $ 1,421,479 | $ 2,808,980 | $ (1,387,501) | (49%) |
| Parking income | 317,985 | 284,475 | 33,510 | 12% |
| Business support services | - | 62,715 | (62,715) | (100%) |
| Development fee | 5,000 | 19,270 | (14,270) | (74%) |
| Assessment fee | 325,011 | 281,218 | 43,793 | 16% |
| Interest income | 4,675 | 3,442 | 1,233 | 36% |
| Other income | 25,784 | 50,225 | (24,441) | (49%) |
| Total operating revenues | 2,099,934 | 3,510,325 | (1,410,391) | (40%) |
| Operating expenses: | | | | |
| Salaries and benefits | 756,798 | 982,788 | (225,990) | (23%) |
| Marketing and promotion | 57,947 | 19,802 | 38,145 | 193% |
| Occupancy costs | 423,073 | 822,685 | (399,612) | (49%) |
| Administrative | 241,560 | 211,956 | 29,604 | 14% |
| Depreciation expense | 252,397 | 602,962 | (350,565) | (58%) |
| Bad debt expense | - | 2,507 | (2,507) | (100%) |
| Total operating expenses | 1,731,775 | 2,642,700 | (910,925) | (34%) |
| Operating income | 368,159 | 867,625 | (499,466) | (58%) |
| Non-operating revenues and expense | (4,918,802) | 96,425 | (5,015,227) | (5,201%) |
| Change in net assets | (4,550,643) | 964,050 | (5,514,693) | (572%) |
| Net assets - beginning of year | 13,508,442 | 12,544,392 | 964,050 | 8% |
| Net assets - end of year | $ 8,957,799 | $ 13,508,442 | $ (4,550,643) | (34%) |

Operating revenues decreased forty percent and operating expenses decreased thirty-four percent from the previous fiscal year due to the sale of Biotech One and Biotech Center.

## Statement of Cash Flows

The Statement of Cash Flows provides information about the Authority's cash receipts and cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where cash came from, what was it used for, and what was the change in cash balance during the reporting period.

Condensed Statement of Cash Flows
for the years ended June 30, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities | $ 589,242 | $ 1,481,062 |
| Cash flows from non-capital financing activities | (3,590,506) | 86,745 |
| Cash flows from capital and related financing activities | 2,230,322 | (1,488,874) |
| Net increase in cash and cash equivalents | (770,942) | 78,933 |
| Cash and cash equivalents: | | |
| Beginning of year | 2,135,828 | 2,056,895 |
| End of year | $ 1,364,886 | $ 2,135,828 |

The Authority's available cash and cash equivalents decreased from $2.14 million at the end of 2011 to $1.36 million at the end of 2012.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The Authority's investment in capital assets as of June 30, 2012 amounted to $5.4 million (net of accumulated depreciation). This investment in capital assets primarily includes buildings, land, leasehold improvements, and equipment.

**Buildings located within the Research Park**

| Buildings | Number of Occupants | Total Sq. Ft. | Leased Sq. Ft. | Date Acquired/ Constructed |
|---|---|---|---|---|
| Biotech Center [(B)] | 62 | 24,392 | 11,513 | 1995 |
| Biotech One [(B)] | 286 | 103,683 | 94,027 | 1996 |
| Biotech Two [(A)] | 194 | 133,700 | 133,700 | 1998 |
| Biotech Five | 15 | 13,400 | 13,400 | 1999 |
| Biotech Six | 222 | 191,000 | 191,000 | 2003 |
| Biotech Seven [(C)] | 327 | 80,000 | 80,000 | 2002 |
| Biotech Eight [(D)] | 459 | 76,300 | 76,300 | 2007 |
| Biotech Nine [(C)] | 560 | 450,000 | 450,000 | 2007 |
| Total | 2,125 | 1,072,475 | 1,049,940 | |

[(A)] Property is owned by the Commonwealth of Virginia
[(B)] Property is owned by Virginia Commonwealth University
[(C)] Property is owned by Building Occupant
[(D)] Property is owned by Biotech Eight, LLC

The Biotech Center has 11,513 leasable square feet and was 100 percent occupied, Biotech One has 94,027 leasable square feet and was 100 percent occupied, Biotech Eight has 76,300 leasable square feet and was 100 percent occupied at June 30, 2012. Biotech 3 was demolished during FY 2012 for the expansion of Biotech 8. All other Biotech buildings were 100 percent occupied.

## Long-Term Debt

### Bonds

At June 30, 2012, the Authority had $35.3 million in long-term bond debt, excluding current maturities.

The Authority Industrial Development Revenue bonds, Series 1999A and 1999B, were issued in 1999 for $2.75 million to finance construction of Biotech Five. An operating lease between the Authority and Infilco Degremont North American Research and Development Center supports the bonds. The bonds carry an A rating from Standard and Poor’s. The balance was paid in full as of June 30, 2012.

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 Department of General Services, 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 majority of these bonds were refunded with the issuance of the 2009 bonds discussed below. The balance excluding current maturities at June 30, 2012 was zero.

The Authority Lease Revenue Refunding bonds were issued in 2009 for $36.7 million. Proceeds were used to refund a portion of the Authority Lease Revenue bonds issued in 2001. 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, 2012 was $34.9 million.

In 2002, the Authority issued Variable Rate Revenue Bonds in the amount of $12 million for the construction of Biotech Seven. The 2002 bonds were issued as a conduit to finance construction of the new national headquarters for the United Network for Organ Sharing (UNOS) and as such the Authority does not have a financial obligation and does not carry a balance on the financial statements. The bonds carry a Standard and Poor's rating of A+/A-1.

In 2006, the Authority served as the conduit for issuing $14 million in tax-exempt variable rate revenue bonds to finance the construction of new facilities for Virginia Blood Services in Henrico County, Virginia. The bonds were secured by pledge payments from Virginia Blood Services and the ASTREA, the parent company of Virginia Blood Services and were secured by a letter of credit issued by Sun Trust Bank.

Other Debt

In May 2009, the Authority refunded the 1998 Biotech One Taxable Lease Revenue bonds by refinancing to a 2009 tax-exempt note of $7,929,987 from Banc of America Public Capital Corporation with a 3.28 percent interest rate and a term through December 2015. The balance was paid in full with the sale of Biotech One and Biotech Center.

In June 2006, the Authority opened a $1 million revolving line of credit for upcoming and future Capital expansion projects. During fiscal year 2008 the credit limit was increased to $3 million. At June 30, 2012 the line of credit had a balance of $1.85 million.

## 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 Director of Finance and Human Resources at 800 East Leigh Street, Richmond, VA 23219, (804)828-0963.

# *Financial Statements*

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2012

| | |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and cash equivalents (Note 2) | $ 249,167 |
| Cash with Local Government Investment Pool (Note 2) | 1,115,719 |
| Accounts receivable, net of allowance for doubtful accounts of $-0- | 128,565 |
| Prepaid expenses | 17,924 |
| Net investment in lease receivable | 1,835,000 |
| BioTech Eight, LLC HLA Lab Receivable (Note 3) | 169,810 |
| Total current assets | 3,516,185 |
| Non-current assets, net of depreciation: | |
| Net investment in lease receivable (Note 5) | 34,905,000 |
| Investment in Biotech 8, LLC (Note 12) | 98,307 |
| Investment in Bioling, LLC (Note 12) | 8 |
| Commonfund Investments (Note 2) | 4,000,000 |
| Biotech Eight, LLC HLA Lab Receivable (Note 3) | 297,168 |
| Non-depreciable capital assets (Note 4) | 3,666,768 |
| Depreciable capital assets, net of accumulated depreciation (Note 1 and 4) | 1,777,846 |
| Total non-current assets | 44,745,097 |
| Total assets | 48,261,282 |
| **LIABILITIES** | |
| Current liabilities: | |
| Accounts payable | 97,872 |
| Customer deposit | 12,895 |
| Deferred income | 160,885 |
| Long-term debt - current portion (Note 7) | 3,731,737 |
| Total current liabilities | 4,003,389 |
| Non-current liabilities: | |
| Long-term debt (Note 7) | 35,283,886 |
| Compensated absences (Note 1 and 7) | 16,208 |
| Total non-current liabilities | 35,300,094 |
| Total liabilities | 39,303,483 |
| **NET ASSETS** | |
| Invested in capital assets, net of related debt | 3,591,177 |
| Unrestricted | 5,366,622 |
| Total net assets | $ 8,957,799 |

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
As of June 30, 2012

| | |
|---|---|
| Operating revenues: | |
| Rental income | $ 1,421,479 |
| Parking income | 317,985 |
| Development Fee | 5,000 |
| Assessment Fee | 325,011 |
| Interest income | 4,675 |
| Other income | 25,784 |
| Total operating revenues | 2,099,934 |
| Operating expenses: | |
| Salaries and benefits | 756,798 |
| Marketing and promotion | 57,947 |
| Occupancy costs | 423,073 |
| Administrative | 241,560 |
| Depreciation expense (Note 4) | 252,397 |
| Total operating expenses | 1,731,775 |
| Income from operations | 368,159 |
| Non-operating revenue/(expenses): | |
| Interest revenue | 1,694,075 |
| Interest expense | (1,777,075) |
| Gain from Biotech Eight LLC (Note12) | 454,204 |
| Loss on Sale of Biotech One and Center | (5,325,940) |
| Biotech 10 expenses | (2,066) |
| HLA Loan Payments | 47,220 |
| Other non-Operating Expenses | (444) |
| In-Kind Expense | (8,776) |
| Total non-operating activity | (4,918,802) |
| Change in net assets | (4,550,643) |
| Net assets - beginning of year | 13,508,442 |
| Net assets - end of year | $ 8,957,799 |

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
STATEMENT OF CASH FLOWS
As of June 30, 2012

| | |
|---|---|
| Cash flows from operating activities: | |
| Cash received from rent | $ 1,441,674 |
| Cash received from parking | 344,630 |
| Cash received from assessment program | 323,792 |
| Cash received from development fees | 5,000 |
| Cash received from miscellaneous income | 30,459 |
| Payments for personnel expenses | (783,427) |
| Payments for marketing expenses | (51,494) |
| Payments for occupancy expenses | (476,580) |
| Payments for administrative expenses | (244,812) |
| Net cash provided by operating activities | 589,242 |
| Cash flows from non-capital financing activities: | |
| Distributions received from Biotech 8, LLC | 409,502 |
| Investment in Bioling, LLC | (8) |
| Purchase of investments | (4,000,000) |
| Net cash used by noncapital financing activities | (3,590,506) |
| Cash flows from capital and related financing activities: | |
| HLA payments received | 217,030 |
| Interest revenue | 34,200 |
| Principal paid | (2,379,770) |
| Interest paid | (139,071) |
| Non-operating expenses | (2,069) |
| Proceeds received on sale of fixed assets | 4,500,000 |
| Net cash provided by capital and related financing activities | 2,230,322 |
| Net increase in cash | (770,942) |
| Cash and cash equivalents - 6/30/11 | 2,135,828 |
| Cash and cash equivalents - 6/30/12 | $ 1,364,886 |

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
STATEMENT OF CASH FLOWS
As of June 30, 2012

| | | |
|---|---|---|
| RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | $ | 368,159 |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation expense | | 252,397 |
| Increase in accounts payable | | (42,419) |
| Decrease in operating accounts receivable | | 158,195 |
| Increase in operating benefits payable | | (34,197) |
| Increase in customer deposits | | (2,249) |
| Decrease in deferred income | | (94,617) |
| Decrease in prepaid expenses | | (14,820) |
| Decrease in leave accrual | | 7,568 |
| In-kind expense | | (8,775) |
| Net cash provided by operating activities | $ | 589,242 |

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES

During 2012, the Authority sold Biotech One and Biotech Center property to Virginia Commonwealth University. The University assumed responsibility for the Authority's debt related to this property. As a result of the sale, the net book value of the Authority's assets decreased by $15,041,125 and the balance of the Authority's debt decreased by $5,199,500. The Authority incurred $15,684 in non-cash interest expense and received $4,500,000 in cash proceeds at closing. The Authority recognized an overall loss of $5,325,940 as a result of this sale.

Under the BioTech Six lease agreement, the Department of General Services makes lease payments directly to the Commonwealth of Virginia which are applied to the Authority's outstanding lease revenue bonds. During fiscal year 2012, payments under this agreement resulted in a $2,754,999 reduction in its lease receivable and a $2,755,000 reduction in outstanding principal. The Authority also recorded capital lease interest income and bond interest expense of $1,659,875 under this agreement.

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

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012

## 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. There were no revenues and expenses related to the Corporation for the year ended June 30, 2012.

The Authority is responsible for developing, leasing, operating, managing, and maintaining the Research Park properties and grounds, as well as oversight of contractors.

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

Basis of Accounting

The financial statements of the Authority have been prepared using the economic resource's 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) 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) assessments and other miscellaneous revenue sources such as vending machine commissions, event fees for conference facilities, tenant fax and copying fees, and expenditure reimbursements that are not related to a specific capital outlay project.

The Authority defines non-operating revenues as revenue derived from capital lease agreements and capital financing activities such as interest income on funds held in trust accounts and developer's/issuer's fees earned on bond issuances and project development.

Cash and Cash Equivalents

For the purpose of reporting cash flows, the Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Asset Capitalization and Depreciation Method

Capital assets are generally assets with an initial cost of $2,500 or more and an estimated useful life in excess of two years. Capital assets are valued at historical costs or estimated historical cost if actual cost is not available. Capital assets are comprised of land, buildings, equipment, construction-in-progress, and other improvements. Donated capital assets are carried at market value at the date of contribution. Accumulated depreciation is reported on the Statement of Net Assets. Depreciation is computed on the straight-line basis over the estimated useful life of the asset ranging from three to 48 years. Depreciable Capital Assets were evaluated at the beginning of the fiscal year 2005 and determined to have 40 years of useful life remaining from July 2004 going forward.

| | |
|---|---|
| Buildings | 20-48 years |
| Improvements | 5-15 years |
| Equipment | 3-20 years |
| Land | Non-depreciable assets |

The costs for maintenance and repairs are charged to occupancy expense as incurred. When items are retired or otherwise disposed of, the related costs and accumulated depreciation are eliminated from the accounts and any resulting profit or loss on such dispositions is reflected in non-operating activities.

Long-Term Obligations

Long-term obligations are reported as liabilities in the Statement of Net Assets. In accordance with paragraph 146 of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The Authority elected to apply this policy prospectively beginning July 1, 2004.

Compensated Absences

Compensated absences represent the amounts of paid time off (PTO) hours earned by employees, but not taken at June 30, 2012. 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 Local Government Investment Pool accounts are recorded as operating revenue. Interest income and administrative fees related to the bond accounts are recorded as non-operating revenue.

## 2. DEPOSITS AND INVESTMENTS

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. 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.

Investments

Code of Virginia section 2.2-4500 et.seq. authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof; obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, and the African Development Bank; "prime quality" commercial paper and certain corporate notes; banker's acceptances repurchase agreements; and the State Treasurer's Local Government Investment Pool (LGIP).

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5 percent of the Authority's investments are in Commonfund Institutional Multi-Strategy Equity Fund, LLC and Commonfund Institutional Multi-Strategy Bond Fund, LLC. These investments are 62% and 38%, respectively, of the Authority's total investments.

Foreign Currency Risk

The Authority's exposure to foreign currency risk derives from its holdings of foreign securities and the use of derivatives to hedge the related foreign currency exposure back to the U.S. dollar. These foreign securities are part of the holdings included in the Commonfund Institutional Multi-Strategy Equity Fund, LLC and Commonfund Institutional Multi-Strategy Bond Fund, LLC and represent 13% and 4% of the fund's holdings, respectively. The Authority does not have a formal policy to limit foreign currency risk.

## 3. BIOTECH EIGHT, LLC HLA LAB RECEIVABLE

The Authority is in partnership with Biotech Eight, LLC which owns the Biotech Eight building. Effective May 2008, the Authority advanced funds to the Virginia Commonwealth University Health System in the amount of $1,188,671 for the build out of their lab located within the Biotech Eight building. The Virginia Commonwealth University Health System is invoiced $18,085 monthly as additional rent for the term of the lease, which includes both repayment of the advance and interest over the seven-year life of the agreement. As of June 30, 2012, the balance was $466,978 and 33 installments were still remaining.

## 4. PROPERTY, PLANT, AND EQUIPMENT

A summary of changes in the Authority's Property, Plant, and Equipment for the year ended June 30, 2012, is presented as follows:

| | Beginning Balance | Acquired | Deleted | Ending Balance |
|---|---|---|---|---|
| Land | $ 5,280,354 | $ - | $ 1,613,586 | $ 3,666,768 |
| Buildings | 24,107,571 | - | 21,746,957 | 2,360,614 |
| Equipment | 744,598 | | 453,521 | 291,077 |
| Leasehold improvements | 1,824,815 | - | 1,813,965 | 10,850 |
| Total at historical cost | 31,957,338 | - | 25,628,029 | 6,329,309 |
| Less accumulated depreciation for: | | | | |
| Buildings | 9,144,065 | 135,334 | 8,498,881 | 780,518 |
| Equipment | 296,772 | 70,613 | 274,058 | 93,327 |
| Leasehold improvements | 1,778,365 | 46,450 | 1,813,965 | 10,850 |
| Total accumulated depreciation | 11,219,202 | 252,397 | 10,586,904 | 884,695 |
| Capital assets, net | $ 20,738,136 | $ (252,397) | $ 15,041,125 | $ 5,444,614 |

The decrease in the Authority's Asset accounts is due to the sale of Biotech One and Biotech Center to VCU.

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 $46,197,800 at June 30, 2012, which equals the remaining principal and interest due on the debt for the Biotech Six building. The financial statements include unearned income of $9,457,800 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, 2012:

| | 2012 |
|---|---|
| Current portion: | |
| Minimum lease payments receivable | $ 3,398,475 |
| Less: unearned revenue | (1,563,475) |
| Current net investment in lease receivable | 1,835,000 |
| Non-current portion: | |
| Minimum lease payments receivable | 42,799,325 |
| Less: unearned revenue | (7,894,325) |
| Non-current net investment in lease receivable | 34,905,000 |
| Total net investment in lease receivable | $ 36,740,000 |

At June 30, 2012, lease payments for each of the succeeding fiscal years are as follows:

| Year | Amount |
|---|---|
| 2013 | $ 3,398,475 |
| 2014 | 4,756,900 |
| 2015 | 4,755,150 |
| 2016 | 4,756,950 |
| 2017 | 4,753,150 |
| 2018 – 2022 | 23,777,175 |
| Total lease payments | $ 46,197,800 |

6. CONDUIT DEBT OBLIGATIONS

On April 9, 2002, the Authority issued $12,000,000 in Series 2002 Variable Rate Revenue Bonds to fund construction of the Biotech Seven project. Biotech Seven is an office and data facility built specifically for United Network for Organ Sharing (UNOS).

The bonds are secured by a letter of credit and are payable solely from the payments made by the borrower under the loan agreement. Upon repayment of the bonds, ownership of the facility transfers to UNOS. The bonds do not constitute a debt or pledge of the faith and credit of the Authority or the Commonwealth and accordingly have not been reported in the accompanying financial statements.

On October 1, 2006, the Authority issued $14,000,000 in series 2006 Variable Rate Revenue Bonds to finance the Virginia Blood Services project. The Virginia Blood Services project was issued to finance the acquisition of land and the construction, equipping, and development of a new 60,000 square foot headquarters facility in Henrico County, including a collection center, a production facility, a distribution area, and other related improvements. The bonds are secured by a letter of credit and are payable solely from the lease payments made by the borrower under the loan agreement. The bonds do not constitute a debt or pledge of the faith and credit of the Authority or the Commonwealth and accordingly have not been reported in the accompanying financial statements.

7. NON-CURRENT LIABILITIES

The Authority's non-current liabilities consist of long-term debt, accrued, and other non-current liabilities.

Long-term debt of the Authority consists of the following bonds, line of credit, and notes payable at June 30, 2012:

| | |
|---|---|
| 3.00 percent to 5.00 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech Six Consolidated Laboratories Project), Series 2009. | $ 36,740,000 |
| LIBOR market index rate plus 2.0 percent, renewable, interest only, Wells Fargo Line of Credit of $1.5 million taken on September 7, 2006. Credit line renewable annually. | 1,853,437 |
| Total long-term debt | $ 38,593,437 |

A summary of changes in the Authority's non-current liabilities for the year ended June 30, 2012 is presented as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
|---|---|---|---|---|---|
| Bonds payable: | | | | | |
| Commonwealth of Virginia lease revenue bonds | $ 40,620,000 | $ - | $ 3,880,000 | $ 36,740,000 | $ 1,835,000 |
| Unamortized bond premium | 3,779,270 | - | 357,839 | 3,421,431 | 350,916 |
| Less: | | | | | |
| Deferral on refunding | 2,689,606 | - | 250,197 | 2,439,409 | 250,197 |
| Underwriters Disount | 629,925 | - | 70,089 | 559,836 | 57,419 |
| Net bonds payable | 41,079,739 | - | 3,917,553 | 37,162,186 | 1,878,300 |
| Notes payable: | | | | | |
| BioTech One Note | 5,606,870 | - | 5,606,870 | - | - |
| Line of Credit | 2,700,837 | - | 847,400 | 1,853,437 | 1,853,437 |
| Total long-term debt | 49,387,446 | - | 10,371,823 | 39,015,623 | 3,731,737 |
| Compensated absences | 8,641 | 7,568 | - | 16,209 | - |
| Total long-term liabilities | $ 49,396,087 | $ 7,568 | $ 10,371,823 | $ 39,031,832 | $ 3,731,737 |

Long-term debt matures as follows:

| Fiscal year | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 3,688,437 | $ 1,563,475 | $ 5,251,912 |
| 2014 | 3,270,000 | 1,486,900 | 4,756,900 |
| 2015 | 3,385,000 | 1,370,150 | 4,755,150 |
| 2016 | 3,525,000 | 1,231,950 | 4,756,950 |
| 2017 | 3,665,000 | 1,088,150 | 4,753,150 |
| 2018-2022 | 21,060,000 | 2,717,175 | 23,777,175 |
| Total | $ 38,593,437 | $ 9,457,800 | $ 48,051,237 |

During fiscal year 2010 certain Commonwealth of Virginia Lease Revenue Bonds were defeased by the Authority. A portion of the net proceeds from the sale of the 2001 bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the Authority's financial statements.

On October 27, 2009, the Authority issued $36,740,000 Commonwealth of Virginia Lease Revenue Refunding Bonds to refund all but $7,905,000 in principal amount of the Authority's Lease Revenue Bonds. During fiscal year 2012, the unrefunded bonds were paid in full.

The refunding was undertaken to take advantage of the lower interest rates available to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $3,106,597.

This amount is netted against the old debt and amortized over the life of the new debt which is the same as the refunded debt. The transaction also resulted in a net present value savings of $2,287,322. Proceeds from the sale were placed in an irrevocable trust with an escrow agent to repay the bonds. The bonds were paid in full September 1, 2011. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the Authority's financial statements.

8. Defined Benefit Pension Plan

The Authority contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the VRS.

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.

- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/pdf/Publications/2011-annual-report.pdf or by writing to the Chief Financial Officer at Post Office Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia (1950),* as amended, to contribute 5% of their compensation toward retirement. All or part of the 5% member contribution has been assumed by the Authority. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended June 30, 2012 was 6.74% of annual covered payroll.

Annual Pension Cost

For fiscal year ended June 30, 2012, the Authority's annual pension cost of $59,301 was equal to the Authority's required and actual contributions.

Three-Year Trend Information for Virginia Biotechnology Research Partnership Authority

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC | Net Pension Obligation |
|---|---|---|---|
| 6/30/2010 | $ 93,766 | 100% | $ - |
| 6/30/2011 | $ 77,065 | 100% | $ - |
| 6/30/2012 | $ 59,301 | 100% | $ - |

The FY 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases of 3.75% to 5.60% per year for general governmental employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c), a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

Funding Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 107.64% funded. The actuarial accrued liability for benefits was $1,305,495 and the actuarial value of assets was $1,405,228, resulting in an unfunded actuarial accrued liability (UAAL) of $(99,733). The covered payroll (annual payroll of active employees covered by the plan) was $567,495, and ratio of UAAL to the covered payroll was (17.57) %.

## 9. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program, which provides post-employment life insurance benefits to eligible retired and terminated employees. Information relating to these plans is available at the statewide level in the CAFR.

## 10. RELATED PARTY TRANSACTIONS

During fiscal year 2000, 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. There were no expenses incurred by the Authority related to the operations of the VBDC during fiscal year 2012.

## 11. 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.

## 12. INVESTMENT IN PARTNERSHIPS

The Biotech Eight, LLC is a for-profit development entity in which the Virginia Biotechnology Research Park has an approximate 15.6 percent equity interest. During fiscal year 2007 the Authority contributed land (740 Navy Hill Road) with a book value of $97,709 and a market value of $1,000,000 and cash in the amount of $500,000, for a total equity contribution of $1,500,000. In September 2009, an additional $115,000 was contributed per a loan agreement. During 2011, the Operating Agreement was amended to exclude the Authority from sharing in any additional profits or losses of the LLC. However, accounting standards require the Authority to recognize its proportionate share of the profit and losses in the LLC in line with allocation ratios used for preferred return distributions. The Authority will receive preferred returns of any distributions of excess cash and upon the sale or refinancing of the property from the LLC. The net investment in Biotech Eight, LLC was $98,307 at June 30, 2012. The building was 100 percent occupied as of June 30, 2012, and total project costs were in excess of $22 million.

During fiscal year 2012, Virginia Biotechnology Research Park committed to an 8% equity interest in Bioling LLC, a for-profit development entity. The Park is subject to potential cash calls in proportion to their Percentage Interests and will share in distributions of excess cash in accordance with its partnership percentage. Equity Balance June 2012 was $8.

# *Required Supplementary Information*

REQUIRED SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2012

The schedule of funding progress, presented below as Required Supplementary Information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Required Supplementary Information

| Valuation Date | | Actuarial Value of Assets (1) | | Actuarial Accrued Liability (2) | | Unfunded Actuarial Accrued Liability (UAAL) (2)-(1) | Funded Ratio (1)/(2) | | Annual Covered Payroll (4) | UAAL as % of Payroll (2-1)/(4) |
|---|---|---|---|---|---|---|---|---|---|---|
| 6/30/2009 | $ | 1,175,856 | $ | 1,074,594 | $ | (101,262) | 109.42% | $ | 731,950 | -13.83% |
| 6/30/2010 | $ | 1,299,979 | $ | 1,253,887 | $ | (46,092) | 103.68% | $ | 703,422 | -6.55% |
| 6/30/2011 | $ | 1,405,228 | $ | 1,305,495 | $ | (99,733) | 107.64% | $ | 567,495 | -17.57% |

# *Independent Auditor's Report*

Commonwealth of Virginia

*Auditor of Public Accounts*

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 20, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
And Review Commission

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the **Virginia Biotechnology Research Partnership Authority**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Virginia Biotechnology Research Partnership Authority as of June 30, 2012, and the changes in financial position, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for the defined benefit pension plan on pages 9 through 16 and page 37 be presented to supplement the basic financial statements.

Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with Government Auditing Standards, we have also issued our report dated November 20, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

DBC/clj