

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

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of the Virginia Biotechnology Research Park Authority for the year ended June 30, 2000, found:

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

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INDEPENDENT AUDITOR'S REPORT	
Report on Financial Statements	1
Report on Compliance and on Internal Control over Financial Reporting	2-3
FINANCIAL STATEMENTS:	
Statement of Financial Position	5
Statement of Activities	6
Statement of Cash Flows	7
Notes to Financial Statements	8-11
BOARD MEMBERS	12

October 20, 2000

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

We have audited the consolidated accounts and records of the **Virginia Biotechnology Research Park Authority** as of and for the year ended June 30, 2000, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We have audited the consolidated statement of financial position of the Virginia Biotechnology Research Park Authority as of June 30, 2000, and the related consolidated statements of activities and cash flows for the year then ended. The financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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, 2000, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

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, 2000, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over financial reporting and its operation that we consider to be material weaknesses.

Status of Prior Findings

The Authority has taken adequate corrective action with respect to audit findings reported in the prior year.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 29, 2000.

AUDITOR OF PUBLIC ACCOUNTS

SAH:aom
aom:171

FINANCIAL STATEMENTS

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF FINANCIAL POSITION
As of June 30, 2000

ASSETS

Current assets:	
Cash and cash equivalents (Note 2)	\$ 96,434
Cash with trustee (Note 2)	945,314
Local government investment pool (Note 2)	499,577
Accounts receivable	133,187
Prepaid expenses	2,283
Total current assets	<u>1,676,795</u>
Property, plant, and equipment, net of depreciation: (Note 3)	
Land	2,200,618
Buildings	21,772,807
Leasehold improvements	1,262,570
Equipment	265,196
Total property, plant and equipment	<u>25,501,191</u>
Other assets:	
Capital lease receivable - Biotech Two (Note 4)	45,691,866
Unamortized interest expense	1,743,890
Unamortized bond issue cost	1,284,835
Total other assets	<u>48,720,591</u>
Total assets	<u><u>\$ 75,898,577</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 111,841
Accrued interest payable	58,456
Customer deposit	16,377
Deferred income	164,468
Long-term debt - current portion (Note 5)	1,580,000
Total current liabilities	<u>1,931,142</u>
Long-term liabilities:	
Long-term debt (Note 5)	43,855,000
Unearned income - Biotech Two	16,496,865
Total long-term liabilities	<u>60,351,865</u>
Total liabilities	62,283,007
Unrestricted net assets	<u>13,615,570</u>
Total liabilities and net assets	<u><u>\$ 75,898,577</u></u>

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

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2000

Operating revenues:	
Rent income	\$ 2,432,946
Contributions (Note 7)	806,568
University support (Note 7)	503,573
Interest	56,461
Miscellaneous	<u>35,050</u>
Total operating revenues	<u>3,834,598</u>
Operating expenses:	
Salaries and benefits	450,103
Marketing and promotion	187,646
Occupancy costs	858,433
Administrative	100,189
Amortization expense	153,626
Depreciation expense	878,859
Other	<u>34,809</u>
Total operating expenses	<u>2,663,665</u>
Operating Income	<u>1,170,933</u>
Nonoperating revenue (expenses):	
Interest revenue	1,620,608
Interest expense	(2,490,272)
Commonwealth of Virginia support (Note 7)	<u>1,000,000</u>
Total nonoperating revenue (expenses)	<u>130,336</u>
Increase in net assets	1,301,269
Net assets - July 1, 1999	<u>12,314,301</u>
Net assets - June 30, 2000	<u>\$ 13,615,570</u>

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

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2000

Cash flows from operating activities:	
Cash received from tenants, including cash deposits	\$ 2,363,905
Contributions	1,303,648
Other revenues	84,163
Payments for employees	(447,356)
Payments for marketing expenses	(151,929)
Payments for occupancy expenses	(836,619)
Other expenses	(226,675)
	<hr/>
Net cash provided by operating activities	2,089,137
	<hr/>
Cash flows from capital and related financing activities:	
Proceeds from capital lease payment	920,000
Payment of principal on note	(1,430,000)
Interest received	1,620,608
Interest paid	(2,513,658)
Acquisition of fixed assets	(3,735,897)
Commonwealth of Virginia support	1,000,000
	<hr/>
Net cash provided by capital and related activities	(4,138,947)
	<hr/>
Net increase in cash and cash equivalents	(2,049,810)
Cash and cash equivalents at July 1, 1999	<hr/> 3,591,135
Cash and cash equivalents at June 30, 2000	<hr/> \$ 1,541,325
	<hr/>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,170,933
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	878,859
Amortization expense	153,626
Increase in accounts payable	38,896
Increase in accounts receivable	(86,051)
Decrease in deferred income	(85,258)
Increase in customer deposit	5,184
Decrease in prepaid expenses	12,948
	<hr/>
Net cash provided by operating activities	<hr/> \$ 2,089,137
	<hr/>

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Virginia Biotechnology Research Park Authority (Authority) have been prepared on the accrual basis. The Authority, which began operations effective July 1, 1993, provides a mechanism for financing construction of the biotechnology research park through bond issuances.

The Virginia Biotechnology Research Park Corporation is an IRS Code Section 501(c)(3) corporation and is organized and operated exclusively for scientific, educational, and charitable purposes. Corporation revenues and expenses each totaled \$183,369 for the year ended June 30, 2000. For financial statement presentation, the Corporation is reflected as a blended component unit of the Authority.

The Virginia Biotechnology Research Park Authority is responsible for handling all financial transactions including the preparation of the financial statements. 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, including maintaining grounds and overseeing sub-contractors.

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

2. CASH AND CASH EQUIVALENTS

The Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 et seq. of the Code of Virginia or covered by federal depository insurance. Other funds of the Authority are invested in the State Treasurer's Local Government Investment Pool (LGIP), whose carrying value is equal to the market value.

3. PROPERTY, PLANT, AND EQUIPMENT

	<u>Total Fixed Assets</u>	<u>Less Accumulated Depreciation</u>	<u>Net Fixed Assets</u>
Land	\$ 2,200,618	\$ -	\$ 2,200,618
Buildings	24,363,921	2,591,114	21,772,807
Leasehold improvement	1,337,298	74,728	1,262,570
Equipment	<u>269,354</u>	<u>4,158</u>	<u>265,196</u>
Totals	<u>\$ 28,171,191</u>	<u>\$ 2,670,000</u>	<u>\$ 25,501,191</u>

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.

4. LEASE RECEIVABLE – BIOTECH TWO

The Authority has a capital lease agreement with the Department of General Services (DGS) for the Biotech Two building. The building has a value of \$45,691,866 at June 30, 2000. 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.

5. LONG TERM DEBT

Long-term debt of the Authority consists of the following bonds payable at June 30, 2000:

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.	\$ 13,490,000
4.00 percent to 5.30 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech Two Project), Series 1996.	29,195,000
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.	<u>2,750,000</u>
Total long-term debt	<u>\$ 45,435,000</u>

Long-term debt matures as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 1,580,000	\$ 2,419,842	\$ 3,999,842
2002	1,655,000	2,341,804	3,996,804
2003	1,745,000	2,258,147	4,003,147
2004	1,830,000	2,168,556	3,998,556
2005	1,935,000	2,066,788	4,001,788
Later Years	<u>36,690,000</u>	<u>14,202,650</u>	<u>50,892,650</u>
Totals	<u>\$ 45,435,000</u>	<u>\$ 25,457,787</u>	<u>\$ 70,892,787</u>

6. 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.

7. FINANCIAL SUPPORT

The Authority received \$503,573 from Virginia Commonwealth University (VCU) during fiscal year 2000. VCU made contributions of \$257,070 (unrestricted), \$207,503 (restricted for marketing and salaries), and \$39,000 (adjunct faculty contributions). In addition, the Authority received contributions of \$800,000 from the Virginia Department of Transportation and \$6,568 from ImmunoTox, Inc. for their tenant space build-out. The Authority also received a \$1,000,000 land acquisition grant from the Commonwealth of Virginia through the Virginia Economic Development Partnership.

8. RELATED PARTY TRANSACTIONS

The Authority has entered into a lease agreement with Virginia Commonwealth University. On August 19, 1994, a Memorandum of Understanding was signed committing the University to a 20-year Master Lease with the Authority which guarantees monthly rent equal to the principal and interest necessary to amortize the outstanding debt associated with the construction to the facilities and additional rent required. Upon the commencement of this lease, the amount payable under the lease shall not exceed \$935,000 annually during the first ten years of the lease and \$2,200,000 annually for the remainder of the lease term.

**Virginia Biotechnology Research Park Boards of Directors
As of June 30, 2000**

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

Eugene P. Trani
Chairman

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

Robert T. Skunda
Executive Director

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

Eugene P. Trani
Chairman

William W. Berry	Calvin D. Jamison
Phyllis L. Cothran	G. Gilmer Minor, III
Barry E. DuVal	M. A. Motley
Lawrence H. Framme, III	Frank S. Royal
Gerald T. Halpin	Frank B. Bradley, III

Robert T. Skunda
President and CEO