

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY

Financial Statements
June 30, 2010



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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, 2010. 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. Corporation revenues and expenses each totaled \$47,751 for fiscal year 2010.

The Board and staff of the Authority manage daily operations of the Research Park. The Research Park is a life sciences community adjacent to Virginia Commonwealth University 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, and 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, 2010, was occupied by 46 private and non-profit companies, four state laboratories and offices, and eleven 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. 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 Philip Morris USA Center for Technology, the Research Park is now two-thirds developed.

BioTech Eight is a multi-tenant building in the Research Park. It is located on 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 296-space parking structure. The project is owned by a private entity, BioTech Eight, LLC. Construction began the fall of 2006 and was completed in the 1st quarter 2008.

When fully developed, the Research Park will contain approximately 1.75 million square feet of research, office and laboratory space in 13-15 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.

Authority Highlights

- In November 2009, the Authority entered into an agreement with Hanover County, the Town of Ashland, Dominion Resources and the Virginia Biosciences Development Center to manage the Dominion Resources GreenTech Incubator (DRGI). The DRGI will focus on attracting entrepreneurs and scientists starting companies in technologies related to alternative energy, clean technology and “green tech” jobs, and will replicate the successful business incubation and commercialization model that the Park has used over the past decade to incubate bioscience companies at the Research Park itself. This agreement is significant because it also brings Hanover County into a formal relationship with the Authority, completing an identified strategy in previously-adopted Strategic Plans of the Authority.
- In May 2010, the Authority received notice of a conditional grant award in the amount of \$2,959,702 from the Virginia Tobacco Indemnification and Community Revitalization Commission for the creation of the Virginia Tobacco and Health Research Repository (VTHRR). The VTHRR will be a new Virginia non-profit, non-stock corporation formed to promote research into the health effects of smoking and tobacco use through a database and biological specimens collected over a three-year period by Philip Morris for research purposes. The Total Exposure Study, as the database is known, is one of the largest research studies on smokers and non-smokers undertaken in the U.S., and is intended to become the cornerstone of the VTHRR with the anticipated transfer of the study data and biosamples to the new entity, upon formation. The grant award is conditional and subject to raising matching funding from other sources.
- In November 2006, the Authority entered into a partnership called BioTech Eight, LLC. The BioTech Eight, LLC is a for-profit development entity that the BioTech Authority has approximately 40 percent equity interest in. The Authority contributed land and cash

and entered into a management agreement for property management and leasing. The private sector partners arranged for construction and permanent funding of the project on the strength of their equity contributions and personal guarantees. The total cost of the project is expected to be approximately \$22 million and the first tenants moved in during the 1st quarter of 2008. Before the end of the fiscal year, Health Diagnostic Laboratories, Inc. (HDL), a company founded in the Research Park in June 2009, committed to lease the entire second floor of Biotech 8, adding to their original lease of 8,300 sq. ft., bringing their total occupancy to over 36,500 square feet. HDL is the fastest-growing company in the Park's history, reaching the 100-employee mark within the first 15 months of operations. This expansion brings Biotech 8 to approximately 98 percent total occupancy.

- 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 2011 fiscal year.

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, 2010. 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 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 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, 2010 and 2009 are as follows:

<u>Statement of Net Assets, as of June 30, 2010 and 2009</u>				
	<u>2010</u>	<u>2009</u>	<u>Value of Change</u>	<u>Percentage Of Change</u>
Assets:				
Current and other assets	\$ 46,055,539	\$ 47,819,088	\$ (1,763,549)	(4)%
Capital assets, net	<u>21,035,699</u>	<u>21,598,238</u>	<u>(562,539)</u>	(3)%
Total assets	<u>67,091,238</u>	<u>69,417,326</u>	<u>(2,326,088)</u>	(3)%
Liabilities:				
Current and other liabilities	7,130,708	6,421,434	709,274	11%
Long-term liabilities	<u>47,416,138</u>	<u>50,981,539</u>	<u>(3,565,401)</u>	(7)%
Total liabilities	<u>54,546,846</u>	<u>57,402,973</u>	<u>(2,856,127)</u>	(5)%
Net assets:				
Invested in capital assets, net	10,234,238	10,185,141	49,097	0%
Unrestricted	<u>2,310,154</u>	<u>1,829,212</u>	<u>480,942</u>	26%
Total net assets	<u>\$12,544,392</u>	<u>\$12,014,353</u>	<u>\$ 530,039</u>	4%

The Authority's total assets increased three percent due mainly to the increased cash from the draw on the line of credit. Total liabilities net change was insignificant. The total assets of the Authority exceeded its liabilities by \$12.5 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 year ended June 30, 2010 and 2009 are as follows

Statement of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2010 and 2009

	2010	2009	Value of Change	Percentage Of Change
Operating revenues:				
Rental income	\$2,957,608	\$3,060,376	\$ (102,768)	(3)%
Parking income	337,438	313,525	23,913	8%
University and other support	47,751	47,751	-	0%
Business support services	60,907	87,431	(26,524)	(30)%
Development fee	7,000	12,790	(5,790)	(45)%
Assessment fee	275,706	320,300	(44,594)	(14)%
Interest income	3,255	3,661	(406)	(11)%
Other income	<u>19,120</u>	<u>19,642</u>	<u>(522)</u>	(3)%
Total operating revenues	<u>3,708,785</u>	<u>3,865,477</u>	<u>(156,692)</u>	(4)%
Operating expenses:				
Salaries and benefits	984,429	992,717	(8,288)	(1)%
Marketing and promotion	18,826	63,057	(44,231)	(70)%
Occupancy costs	994,016	920,873	73,143	8%
Administrative	91,340	106,761	(15,421)	(14)%
Depreciation expense	581,026	574,779	6,247	1%
Bad debt expense	<u>6,875</u>	<u>12,238</u>	<u>(5,361)</u>	44%
Total operating expenses	<u>2,676,512</u>	<u>2,670,425</u>	<u>6,087</u>	0%
Operating income	1,032,273	1,195,051	(162,778)	(14)%
Non-operating revenues and expenses	<u>(502,234)</u>	<u>(1,399,582)</u>	<u>897,348</u>	(64)%
Change in net assets	530,039	(204,529)	734,570	(401)%
Net assets - beginning of year	<u>12,014,353</u>	<u>12,218,884</u>	<u>(204,531)</u>	(2)%
Net assets - end of year	<u>\$12,544,392</u>	<u>\$12,014,353</u>	<u>\$ 530,039</u>	4%

Total operating revenues decreased four percent from the previous fiscal year due to decrease in assessment fee, business support services and development fee revenues. Operating expenses net change was insignificant due to management's continuing effort to reduce costs.

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities	\$1,212,679	\$1,740,685
Cash flows from non-capital financing activities	196,373	(23,888)
Cash flows from capital and related financing activities	<u>(586,896)</u>	<u>(1,470,867)</u>
Net increase in cash and cash equivalents	822,156	245,930
Cash and cash equivalents:		
Beginning of year	<u>1,234,738</u>	<u>988,808</u>
End of year	<u>\$2,056,895</u>	<u>\$1,234,738</u>

The Authority's available cash and cash equivalents increased from \$1.2 million at the end of 2009 to \$2.1 million at the end of 2010 mainly due to the draw on the line of credit.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of June 30, 2010 amounted to \$21 million (net of accumulated depreciation). This investment in capital assets primarily includes buildings, land, leasehold improvements, and equipment. The only capital asset event during the current fiscal year included the improvement of the Chiller system in BioTech One and Center at a cost of \$18,487.

Buildings located within the Research Park

<u>Buildings</u>	<u>Number of Occupants</u>	<u>Total Sq. Ft.</u>	<u>Leased Sq. Ft.</u>	<u>Date Acquired/ Constructed</u>
BioTech Center	47	24,300	9,349	1995
BioTech One	238	103,683	63,484	1996
BioTech Two ^(A)	153	133,700	133,700	1998
BioTech Three ^(B)	125	38,072	35,230	1996
BioTech Five	13	13,400	13,400	1999
BioTech Six	269	191,000	191,000	2003
BioTech Seven ^(C)	308	80,000	80,000	2002
BioTech Eight ^(D)	110	76,300	48,385	2007
BioTech Nine ^(C)	<u>500</u>	<u>450,000</u>	<u>450,000</u>	2007
Total	<u>1,763</u>	<u>1,110,455</u>	<u>1,024,548</u>	

^(A) Property is owned by the Commonwealth of Virginia

^(B) Property is owned by VCU Real Estate Foundation

^(C) Property is owned by Building Occupant

^(D) Property is owned by BioTech Eight

The BioTech Center has 11,513 leasable square feet and was 81 percent occupied, BioTech One has 94,027 leasable square feet and was 68 percent occupied, BioTech Eight has 76,300 leasable square feet and was 63 percent occupied at June 30, 2010. All other BioTech buildings were 100 percent occupied.

Long-Term Debt

Bonds

At June 30, 2010, the Authority had \$40.6 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 excluding current maturities at June 30, 2010 was \$1.36 million.

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, 2010 was \$5.39 million.

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, 2010 was \$36.7 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. At June 30, 2010 the tax-exempt note had a balance of \$6.75 million.

In June 2006, the Authority entered into a loan agreement in the amount of \$436,600 to purchase property located at 603 North 7th Street and 704 East Leigh Street, and property located at 616 North 8th Street. The loan's interest rate is LIBOR Market Index Rate plus two percent. The loan is payable in monthly interest payments. In Oct 2009, the unpaid principle of \$436,600 was transferred to the line of credit.

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, 2010 the line of credit had a balance of \$2.70 million.

Future Impact to Financial Position

The VBRPA is in discussions to sell Biotech One and the Biotech Center buildings and land to Virginia Commonwealth University. The VBRPA will net \$4.5 million from the sale and Virginia Commonwealth University will assume the existing Banc of America note. VBRPA will lease back the Biotech Center for \$1 per year. The anticipated closing date is the first quarter of 2011.

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 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, 2010

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 81,173
Cash with trustee (Note 2)	254,378
Cash with Local Government Investment Pool (Note 2)	1,721,344
Accounts receivable, net of allowance for doubtful accounts of \$-0-	238,349
Prepaid expenses	11,840
Net investment in lease receivable (Note 5)	2,630,000
BioTech Eight, LLC HLA Lab Receivable (Note 3)	169,810
Deferred bond issue costs	76,296
Total current assets	<u>5,183,190</u>
Non-current assets, net of depreciation:	
Net investment in lease receivable (Note 5)	39,495,000
Investment in BioTech Eight, LLC (Note 13)	109,997
BioTech Eight, LLC HLA Lab Receivable (Note 3)	650,939
Non-depreciable capital assets (Note 4)	5,280,354
Depreciable capital assets, net of accumulated depreciation (Note 4)	15,755,345
Deferred bond issue costs	616,413
Total non-current assets	<u>61,908,048</u>
Total assets	<u>67,091,238</u>
LIABILITIES	
Current liabilities:	
Accounts payable	122,260
Customer deposit	10,162
Unearned Revenue	38,893
Deferred income	217,783
Long-term debt - current portion (Note 7)	6,741,610
Total current liabilities	<u>7,130,708</u>
Non-current liabilities:	
Long-term debt (Note 7)	47,402,057
Compensated absences (Note 1 and 7)	14,081
Total non-current liabilities	<u>47,416,138</u>
Total liabilities	<u>54,546,846</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,234,238
Unrestricted	2,310,154
Total net assets	<u>\$ 12,544,392</u>

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

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the year ended June 30, 2010

Operating revenues:	
Rental income	\$ 2,957,608
Parking income	337,438
University and other support (Note 10)	47,751
Business support services	60,907
Development Fee	7,000
Assessment Fee	275,706
Interest income	3,255
Other income	19,120
Total operating revenues	<u>3,708,785</u>
Operating expenses:	
Salaries and benefits	984,429
Marketing and promotion	18,826
Occupancy costs	994,016
Administrative	91,340
Depreciation expense (Note 4)	581,026
Bad debt expense	6,875
Total operating expenses	<u>2,676,512</u>
Income from operations	<u>1,032,273</u>
Non-operating revenue/(expenses):	
VBDC in kind expense (Note 11)	(105,756)
DCLS bond servicing fee	373,188
VCUREF for guarantee on BioTech Five	(2,421)
Gain recognized on land transfer to BioTech Eight, LLC (Note 13)	22,557
Loss from BioTech Eight LLC (Note 13)	(185,014)
Interest revenue	1,790,571
Interest expense	(2,120,095)
Loss on Capital lease refinancing	(425,001)
Income from funds in trust	17
HLA Loan Payments	47,220
VBDC Reimbursements	102,500
Total non-operating activity	<u>(502,234)</u>
Change in net assets	530,039
Net assets - beginning of year	<u>12,014,353</u>
Net assets - end of year	<u>\$ 12,544,392</u>

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

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2010

Cash flows from operating activities:	
Cash received from rent	\$ 2,680,131
Cash received from parking	337,438
Cash received from university and other support	47,751
Cash received from business support services	60,907
Cash received from development fees	7,000
Cash received from assessment program	275,706
Cash received from miscellaneous income	22,375
Payments for personnel expenses	(1,091,946)
Payments for marketing expenses	(18,826)
Payments for occupancy expenses	(1,008,418)
Payments for administrative expenses	(99,439)
Net cash provided by operating activities	1,212,679
Cash flows from non-capital financing activities:	
BioTech Eight LLC	47,457
VBDC reimbursements	102,500
Contributions/Grant revenue	46,417
Net cash used by noncapital financing activities	196,374
Cash flows from capital and related financing activities:	
Lease Receivable - Biotech 6	5,293,445
Proceeds from line of credit	1,136,385
DCLS bond servicing fee	373,188
HLA payments received	169,810
DCLS project expenses	30,000
Principal paid	(4,256,421)
Interest paid	(2,265,420)
Loss on refinancing	(425,001)
Payoff Land loan	(436,600)
Non-operating expenses	(185,014)
Fixed asset additions	(18,847)
BioTech five guarantee fees	(2,421)
Net cash used by capital and related financing activities	(586,896)
Net increase in cash	822,156
Cash and cash equivalents - 6/30/09	1,234,738
Cash and cash equivalents - 6/30/10	\$ 2,056,895

RECONCILIATION OF NET OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:

Operating income	\$ 1,032,273
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	581,026
Payments made on behalf of VBDC	(102,763)
Decrease in accounts payable	(15,597)
Decrease in benefits payable	543
Increase in accounts receivable	(90,359)
Decrease in customer deposits	(30,161)
Decrease in deferred income	(156,957)
Increase in prepaid expenses	(6,904)
Decrease in leave accrual	(5,297)
Bad debt expense	6,875
Net cash used by operating activities	<u><u>\$ 1,212,679</u></u>

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

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2010

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. Corporation revenues and expenses each totaled \$47,751 for the year ended June 30, 2010.

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 resources 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) contributions from Virginia Commonwealth University, or other 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, 2010. 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. CASH AND CASH EQUIVALENTS

The Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB No. 3, modified previous disclosure requirements related to investment risk. This statement requires deposit and investment risk disclosures for credit risk, including custodial credit risk and concentrations of credit risk, interest rate risk, and foreign currency risk.

Cash is defined as demand deposits, non-negotiable time deposits, and certificates of deposit in accordance with Section 2.2-4400 of the Code of Virginia. Cash equivalents are defined as investments with an original maturity of less than three months. Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks holding public deposits in excess of the amount insured by the FDIC must pledge collateral that ranges in amounts from 50 percent to 100 percent of excess deposits in the case of a bank, and 100 percent to 110 percent for a savings institution to a collateral pool in the name of the Commonwealth of Virginia Treasury Board. 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. The LGIP is a Standard and Poor's AAA rated investment pool.

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, 2010 the balance was \$820,749 and 58 installments were still remaining.

4. PROPERTY, PLANT, AND EQUIPMENT

	Beginning Balance as of <u>July 1, 2009</u>	Acquired (Increased)	Deleted (Decreased)	Ending Balance as of <u>June 30, 2010</u>
Land	\$ 5,280,354	\$ -	\$ -	\$ 5,280,354
Buildings	24,107,571	-	-	24,107,571
Equipment	420,712	18,487	-	439,199
Leasehold improvements	<u>1,824,815</u>	<u>-</u>	<u>-</u>	<u>1,824,815</u>
Total at historical cost	<u>31,633,452</u>	<u>18,487</u>	<u>-</u>	<u>31,651,939</u>
Less accumulated depreciation for:				
Buildings	8,213,822	465,122	-	8,678,944
Equipment	194,746	37,465	-	232,211
Leasehold improvements	<u>1,626,644</u>	<u>78,441</u>	<u>-</u>	<u>1,705,085</u>
Total accumulated depreciation	<u>10,035,212</u>	<u>581,028</u>	<u>-</u>	<u>10,616,240</u>
Capital assets, net	<u>\$21,598,240</u>	<u>\$(562,541)</u>	<u>\$ -</u>	<u>\$21,035,699</u>

The increase in the Authority's equipment is due to repair of the Chiller system for BioTech One and BioTech Center.

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 \$55,027,313 at June 30, 2010, which equals the remaining principal and interest due on the debt for the BioTech Six building. The financial statements include unearned income of \$12,902,313 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, 2010:

	<u>2010</u>
Current portion:	
Minimum lease payments receivable	\$ 4,414,638
Less: unearned revenue	<u>(1,784,638)</u>
Current net investment in lease receivable	<u>2,630,000</u>
Non-current portion:	
Minimum lease payments receivable	50,612,675
Less: unearned revenue	<u>(11,117,675)</u>
Non-current net investment in lease receivable	<u>39,495,000</u>
Total net investment in lease receivable	<u>\$42,125,000</u>

At June 30, 2010, lease payments for each of the succeeding fiscal years are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 4,414,638
2012	4,414,875
2013	3,398,475
2014	4,756,900
2015	4,755,150
2016 – 2020	23,773,900
2021 – 2022	<u>9,513,375</u>
Total lease payments	<u>\$55,027,313</u>

The Lease Revenue bond was refinanced to take advantage of the lower interest rates in the current market.

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 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, 2010:

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.	\$1,355,000
4.00 percent to 5.00 percent Virginia BioTechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (BioTech Six Consolidated Laboratories Project), Series 2001.	5,385,000
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
3.28 percent tax exempt note from Banc of America Public Capital Corporation. This note was issued on May 27, 2009 to refund the 1998 BioTech One bonds.	6,745,625
LIBOR market index rate plus 2.0 percent, renewable, interest only, Wachovia Line of Credit of \$1.5 million taken on September 7, 2006. Credit line renewable annually.	<u>2,700,837</u>
Total long-term debt	<u>\$52,926,462</u>

Long-term debt matures as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 6,699,593	\$ 2,051,924	\$ 8,751,516
2012	4,180,019	1,877,043	6,057,063
2013	3,319,989	1,728,273	5,048,262
2014	4,817,272	1,596,903	6,414,175
2015	4,996,508	1,422,848	6,419,356
2016-2020	19,858,081	4,585,194	24,443,275
2021-2022	<u>9,055,000</u>	<u>458,375</u>	<u>9,513,375</u>
Total	<u>\$52,926,462</u>	<u>\$13,720,560</u>	<u>\$66,647,022</u>

A summary of changes in the Authority's non-current liabilities for the year ended June 30, 2010 is presented as follows:

	<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	\$46,635,000	\$36,740,000	\$39,895,000	\$43,480,000	\$2,860,000
Unamortized bond premium	339,227	4,357,137	539,360	4,157,004	334,792
Less:					
Deferral on refunding	-	3,106,597	166,796	2,939,801	292,774
Net bonds payable	<u>46,974,227</u>	<u>37,990,540</u>	<u>40,267,564</u>	<u>44,697,203</u>	<u>2,902,018</u>
Notes payable:					
BioTech One Note	7,847,046	-	1,101,421	6,745,625	1,138,755
Line of Credit	1,564,452	1,332,600	196,213	2,700,837	2,700,837
Deed of Trust	<u>436,600</u>	<u>-</u>	<u>436,600</u>	<u>-</u>	<u>-</u>
Total long-term debt	56,822,325	39,323,140	42,001,798	54,143,667	6,741,610
Compensated absences	<u>19,378</u>	<u>-</u>	<u>5,297</u>	<u>14,081</u>	<u>-</u>
Total long-term liabilities	<u>\$56,841,703</u>	<u>\$39,323,140</u>	<u>\$42,007,095</u>	<u>\$54,157,748</u>	<u>\$6,741,610</u>

During fiscal year 2010 certain Commonwealth of Virginia Lease Revenue Bonds were defeased by the Authority. A portion of the net proceed 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. At June 30, 2010, the unrefunded bonds had a balance of \$5,385,000.

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 same as 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 in full on or about September 1, 2012. Accordingly, the

trust account assets and the related liability for the defeased bonds are not reflected in the Authority's financial statements.

8. PENSION PLAN

Employees of the Authority participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agency for the Commonwealth and its political subdivisions.

The VRS does not measure assets and pension benefit obligations for individual state agencies. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The CAFR discloses the unfunded pension benefit obligation at June 30, 2009, as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The Authority's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled \$93,766 for the year ended June 30, 2010. These contributions included the employee contribution and life insurance assumed by the employer. For fiscal year 2010 the contribution rate was 12.29 percent and the life insurance rate for nine months was .79 percent. Contributions to the VRS were calculated using a base salary amount of approximately \$733,588 for the fiscal year ended June 30, 2010. The Authority's total payroll and benefits prior to any reimbursements was \$1,087,192 for the year ended June 30, 2010.

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. FINANCIAL SUPPORT

The Authority received \$47,751 from Virginia Commonwealth University during fiscal year 2010 for adjunct faculty contributions. On August 19, 1994, a Memorandum of Understanding was signed committing the Virginia Commonwealth 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 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. Expenses incurred by the Authority related to the operations of VBDC during fiscal year 2010 totaled \$105,756.

12. 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.

13. BIOTECH EIGHT, LLC

The BioTech Eight, LLC is a for-profit development entity in which the Virginia BioTechnology Research Park has an approximate 40 percent equity interest. The Research Park contributed land at 740 Navy Hill Road valued at \$1,000,000 and cash in the amount of \$500,000, for a total equity contribution of \$1,500,000. September 2009 an addition \$115,000 was contributed per a loan agreement. Under the terms of the Operating Agreement creating the LLC, the Authority, as a limited partner, is subject to cash call provisions in the event of construction or operating shortfalls. However, the Authority's exposure is limited to \$1 million in any three-year period, without the consent of the Board. Any cash calls in excess that may not be approved by the Board would result in a reduction of the Research Park's equity, under the terms of the Operating Agreement. The building was 63 percent occupied as of June 30, 2010, and will have an expected total project cost in excess of \$22 million when fully occupied.

Investment in BioTech Eight, LLC	\$ 1,140,910
Unrealized gain on land	(845,899)
Net loss	<u>(185,014)</u>
Net investment in BioTech Eight, LLC	<u><u>109,997</u></u>

14. SUBSEQUENT EVENTS

The VBRPA is in discussions to sell Biotech One and the Biotech Center buildings and land to Virginia Commonwealth University. The VBRPA will net \$4.5 million from the sale and Virginia Commonwealth University will assume the existing Banc of America note. VBRPA will lease back the Biotech Center for \$1 per year. The anticipated closing date is the first quarter of 2011.

The VBRPA Board has given approval for the Authority to utilize proceeds from tax-exempt bonds or taxable-debt to build Biotech Ten. The Board also has given approval for the Authority to advance its own funds to pay expenditures for the project and then receive reimbursement from the bonds or taxable debt or both.

The VBRPA has received notification from Virginia Commonwealth University that contributions for operating support for salaries and other expenses will end with the 2010 fiscal year. For the fiscal year 2010, the VBRPA received \$47,751 from Virginia Commonwealth University for such items.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

December 7, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
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 basic 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, 2010, 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 Partnership Authority as of June 30, 2010, and the respective 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.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2010, 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

AWP/alh

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
(As of June 30, 2010)

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Patricia Bell Williams, Vice Chair
Samuel B. Hunter, Secretary
William H. Weirich, Treasurer
Robert T. Skunda, Executive Director

Jim Cheng
Robert L. Jesse
Dwight C. Jones
Benjamin Lambert
Patricia M. Woolsey
Zobair M. Younossi

VIRGINIA BIOTECHONOLGY RESEARCH PARK CORPORATION
(As of June 30, 2010)

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Charles H. Foster, Vice Chair
Samuel B. Hunter, Secretary
William H. Weirich, Treasurer
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