

AUDIT SUMMARY

Our audit of the **Virginia Biotechnology Research Park Authority** for the year ended June 30, 1998, found:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;
- no material weaknesses in internal controls over financial reporting; and,
- no instances of noncompliance that are required to be reported.

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BOARD MEMBERS

October 30, 1998

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, 1998, and submit herewith our complete reports on financial statements and compliance and internal controls.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of the Virginia Biotechnology Research Park Authority as of and for the year ended June 30, 1998, 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 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, 1998, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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, 1998, 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 reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to 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 control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Governor and General Assembly, the Boards of Directors, management, and the people of the Commonwealth of Virginia and is public record.

AUDITOR OF PUBLIC ACCOUNTS

PBB:jld
jld:43

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF FINANCIAL POSITION
As of June 30, 1998

ASSETS

Current assets:	
Cash and cash equivalents	\$ 79,650
Cash with trustee	1,689,524
Accounts receivable	132,832
Accounts receivable - EDA Grant	1,000,000
Prepaid expenses	<u>5,126</u>
Total current assets	<u>2,907,132</u>
Property, plant, and equipment, net of depreciation (Note 3)	<u>22,322,068</u>
Other assets:	
Assets held by bond trustee	2,463,258
Unamortized bond issue and discount cost	1,141,492
Unamortized interest expense	1,027,088
Lease Receivable-Biotech Two (Note 4)	<u>50,568,211</u>
Total other assets	<u>55,200,049</u>
Total assets	<u>\$ 80,429,249</u>

LIABILITIES

Current liabilities:	
Accounts payable	\$ 491,002
Notes payable	1,160,000
Retainage payable	1,536,191
Accrued interest payable	170,931
Customer deposit	6,990
Deferred income	413,401
Long-term debt - current portion (Note 6)	<u>1,192,639</u>
Total current liabilities	<u>4,971,154</u>
Long-term liabilities:	
Long-term debt (Note 6)	41,791,788
Unearned interest income	<u>19,568,211</u>
Total long-term liabilities	<u>61,359,999</u>
Total liabilities	66,331,153
Unrestricted net assets	<u>14,098,096</u>
Total liabilities and net assets	<u>\$ 80,429,249</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, 1998

Operating revenues:	
Rent, University income, and other agency support	\$ 3,395,427
Interest	9,485
Miscellaneous	<u>32,354</u>
Total operating revenues	<u>3,437,266</u>
Operating expenses:	
Salaries and benefits	469,494
Marketing and promotion	150,000
Occupancy costs	501,792
Administrative	69,066
Office renovation expenses	22,776
Depreciation expense	528,285
Other	<u>83,572</u>
Total operating expenses	<u>1,824,985</u>
Net increase in assets from operations	<u>1,612,281</u>
Nonoperating revenue (expenses):	
Income from funds in trust	959,591
Interest income	1,571,767
Interest expense	<u>(2,755,858)</u>
Total nonoperating revenues (expenses)	<u>(224,500)</u>
Increase in net assets	1,387,781
Net assets - July 1, 1997 (Note 10)	<u>12,710,315</u>
Net assets - June 30, 1998	<u>\$14,098,096</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, 1998

Cash flows from operating activities:	
Collection of rental income	\$ 2,534,201
Contributions	1,171,079
Payments for employees	(302,898)
Payments for marketing expenses	(150,000)
Payments for occupancy expenses	(1,018,317)
Other operating revenues	41,839
Other operating expenses	(453,543)
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Net cash provided by operating activities	1,822,361
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Cash flows from capital and related financing activities:	
Interest income	1,571,767
Interest expense	(2,697,437)
Income from funds in trust	959,591
Increase in property, plant, and equipment	(18,698,598)
Increase in debt	1,196,390
Decrease in assets held by bond trustee	16,836,932
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Net cash provided by capital and financing activities	(831,355)
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Net increase in cash	991,006
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Cash at July 1, 1997	778,168
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Cash at June 30, 1998	<u>\$ 1,769,174</u>
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Reconciliation of operating income to net cash provided by operating activities:	
Operating income	1,612,281
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	528,285
Decrease in accounts payable	(789,528)
Decrease in accounts receivable	247,725
Increase in deferred income	221,734
Increase in customer deposit	6,990
Increase in prepaid expenses	(5,126)
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Net cash provided by operating activities	<u>\$ 1,822,361</u>
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The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Virginia Biotechnology Research Park Authority (the "Authority") have been prepared on the accrual basis. The Authority began operations effective July 1, 1993. The Authority provides a mechanism for financing construction of the biotechnology research park through bond issuances. The Virginia Biotechnology Research Park Corporation is an IRS Code Section 501(c)(3) corporation and is organized and operated exclusively for scientific, educational, and charitable purposes. For financial statement presentation, the Corporation is reflected as a blended component unit of the Authority. The revenues and expenses of the Corporation total \$185,800 and \$187,585, respectively, for the year ended June 30, 1998.

On January 1, 1998, Virginia Commonwealth University (VCU) Real Estate and Foundation Services assumed responsibility from the Medical College of Virginia Hospital Authority for handling all financial transactions on behalf of the Authority. This includes the preparation of the financial statements.

There is an agreement between the Authority and Daniel Realty Services, which empowers Daniel to operate, manage, and maintain the Virginia Biotechnology Research Park, including maintaining grounds and overseeing sub-contractors. In the prior fiscal year, Daniel also collected rents and paid related expenses.

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 29 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.

3. PROPERTY, PLANT, AND EQUIPMENT

	<u>Total Fixed Assets</u>	<u>Less Accumulated Depreciation</u>	<u>Net Fixed Assets</u>
Land	\$ 1,649,315	\$ -	\$ 1,649,315
Buildings	15,287,019	1,060,352	14,226,667
Equipment	19,089	1,775	17,314
Construction in progress	<u>6,428,772</u>	<u>-</u>	<u>6,428,772</u>
Totals	<u>\$ 23,384,195</u>	<u>\$ 1,062,127</u>	<u>\$ 22,322,068</u>

The Authority's construction in progress totaling \$6,428,772 represents expenses for architectural fees, planning, and construction costs associated with the Biotech One building.

4. LEASE RECEIVABLE – BIOTECH TWO

The Authority has a capital lease agreement with the Department of General Services for the Biotech Two building. The value of the capital lease receivable of \$50,568,216 is comprised of the Biotech Two building, including land, at \$32,027,088, and unearned interest income (\$19,568,211) less interest expense (\$1,027,088).

5. NOTE PAYABLE AND PRIOR YEAR FEDERAL QUESTIONED COSTS

The Authority received a loan of \$1,000,000 from Virginia Commonwealth University's University Health Services for tenant improvement costs on the Biotech One building. The loan bears an interest rate of 5% for the period ending June 30, 1998. Upon resolution of federal questioned costs relating to the Davis-Bacon Act, the Authority received the \$1,000,000 grant from the Economic Development Administration on October 23, 1998. The loan was repaid to University Health Services on October 29, 1998.

6. LONG TERM DEBT

Long-term debt of the Authority consists of the following at June 30:

Bonds Payable:		
4.00% to 5.30% Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech Two Project), Series 1996		\$ 31,000,000
Tenant Improvement Loans:		
9.50% Tenant Improvement Loans (from Crestar Bank)		<u>11,984,427</u>
Total long-term debt		<u>\$ 42,984,427</u>

Long-term debt matures as follows:

<u>Fiscal Year</u>	<u>Revenue Bonds</u>	<u>Tenant Improvement Loans</u>	<u>Total</u>
1999	\$ 885,000	\$ 307,639	\$ 1,192,639
2000	920,000	338,169	1,258,169
2001	960,000	371,764	1,331,764
2002	1,000,000	408,662	1,408,662
2003	1,045,000	449,221	1,494,221
Later Years	<u>26,190,000</u>	<u>10,108,972</u>	<u>36,298,972</u>
Total	<u>\$ 31,000,000</u>	<u>\$ 11,984,427</u>	<u>\$ 42,984,427</u>

7. 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.

8. CONTRIBUTIONS

The Authority received \$1,337,675 in contributions in fiscal year 98 through Virginia Commonwealth University (VCU). VCU made cash contributions of \$505,797 (unrestricted) and \$85,000 (restricted). IMMP, an institute of VCU, contributed \$557,088 towards fitting up their space. The Authority received a \$166,596 contribution as the Executive Director's salary, and \$23,194 in adjunct faculty contributions.

9. 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 this 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.

10. ADJUSTMENT TO PRIOR YEAR FUND BALANCE

The Authority adjusted its prior year fund balance as follows:

1997 Authority Fund Balance	\$ 12,017,537
Net of 1997 due to/due from Corporation	76,779
Unamortized 1997 bond issue and discount costs	<u>(615,999)</u>
1997 Adjusted Fund Balance	<u>\$ 12,710,315</u>

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
Richmond, Virginia

Dr. Eugene P. Trani
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William W. Berry	W. Heywood Fralin
Timothy M. Kaine	Barry DuVal
Thomas J. Bliley, Jr.	Frank L. Hurley
Raymond H. Cypess	Michael G. Wokasch

Robert T. Skunda
President and CEO

James B. Farinholt, Jr.
Executive Director

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Richmond, Virginia

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