

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY

Financial Statements
June 30, 2011



TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS	1-8
FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	11
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS	12
STATEMENT OF CASH FLOWS	13-14
NOTES TO FINANCIAL STATEMENTS	15-24
INDEPENDENT AUDITOR'S REPORT:	
REPORT ON FINANCIAL STATEMENTS	25-26
BOARD MEMBERS	27

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, 2011. 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 \$-0- for fiscal year 2011.

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, 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, 2011, was occupied by 66 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 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 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.

Authority Highlights

- In an independent study conducted by the Virginia Economic Development Partnership (VEDP) at the Park's request, VEDP analyzed the economic benefit created to the Commonwealth of Virginia by virtue of the Park's seventeen year existence. Using its Project ROI model program, which can measure economic impact based on direct employment, direct salaries and investment by companies in the Park since 1995, it is estimated that the companies in the Park have invested an estimated \$556 million in equipment, real estate and building improvements. Further, over the past seventeen years, the operations of the Park, including employment (direct and indirect) and spending have generated approximately \$108 million in tax revenues for the Commonwealth, and according to VEDP's estimation, the estimated cumulative value added (economic impact) attributable to the Park since 1995 is \$3.8 billion.
- 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 2011-12 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. 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, 2011. 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, 2011 and 2010 are as follows:

Statement of Net Assets, as of June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Value of Change</u>	<u>Percentage Of Change</u>
Assets:				
Current and other assets	42,611,084	\$46,055,539	(\$3,444,455)	(7)%
Capital assets, net	<u>20,738,136</u>	<u>21,035,699</u>	<u>(297,563)</u>	(1)%
Total assets	<u>63,349,220</u>	<u>67,091,238</u>	<u>(3,742,018)</u>	(6)%
Liabilities:				
Current and other liabilities	7,369,119	7,130,708	238,411	3%
Long-term liabilities	<u>42,471,659</u>	<u>47,416,138</u>	<u>(4,944,479)</u>	(10)%
Total liabilities	<u>49,840,778</u>	<u>54,546,846</u>	<u>(4,706,068)</u>	(9)%
Net assets:				
Invested in capital assets, net	11,305,428	10,234,238	1,071,190	10%
Unrestricted	<u>2,203,014</u>	<u>2,310,154</u>	<u>(107,140)</u>	(5)%
Total net assets	<u>\$13,508,442</u>	<u>\$12,544,392</u>	<u>\$964,050</u>	8%

The Authority's total assets decreased six percent due mainly to the decreased balance in the receivable accounts. Total liabilities decreased nine percent from payments made on debt services. The total assets of the Authority exceeded its liabilities by \$13.5 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, 2011 and 2010 are as follows:

Statement of Revenues, Expenses, and Changes in Net Assets
for the years ended June 30, 2011 and 2010

	2011	2010	Value of Change	Percentage Of Change
Operating revenues:				
Rental income	\$ 2,808,980	\$ 2,957,608	\$ (148,628)	(5%)
Parking income	284,475	337,438	(52,963)	(16%)
University and other support	-	47,751	(47,751)	(100%)
Business support services	62,715	60,907	1,808	3%
Development fee	19,270	7,000	12,270	175%
Assessment fee	281,218	275,706	5,512	2%
Interest income	3,442	3,255	187	6%
Other income	<u>50,225</u>	<u>19,120</u>	<u>31,105</u>	163%
Total operating revenues	<u>3,510,325</u>	<u>3,708,785</u>	<u>(198,460)</u>	(5%)
Operating expenses:				
Salaries and benefits	982,788	984,429	(1,641)	(0%)
Marketing and promotion	19,802	18,826	976	5%
Occupancy costs	822,685	994,016	(171,331)	(17%)
Administrative	211,956	91,340	120,616	132%
Depreciation expense	602,962	581,026	21,936	4%
Bad debt expense	<u>2,507</u>	<u>6,875</u>	<u>(4,368)</u>	(64%)
Total operating expenses	<u>2,642,700</u>	<u>2,676,512</u>	<u>(33,812)</u>	(1%)
Operating income	867,625	1,032,273	(164,648)	(16%)
Non-operating revenues and expenses	<u>96,425</u>	<u>(502,234)</u>	<u>598,659</u>	(119%)
Change in net assets	964,050	530,039	434,011	82%
Net assets - beginning of year	<u>12,544,392</u>	<u>12,014,353</u>	<u>530,039</u>	4%
Net assets - end of year	<u>\$ 13,508,442</u>	<u>\$ 12,544,392</u>	<u>\$ 964,050</u>	8%

Total operating revenues decreased five percent from the previous fiscal year due mainly to the loss of University and other support. Operating expenses decreased one percent 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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities	\$ 1,481,062	\$ 1,212,679
Cash flows from non-capital financing activities	86,745	196,373
Cash flows from capital and related financing activities	<u>(1,488,874)</u>	<u>(586,896)</u>
Net increase in cash and cash equivalents	78,933	822,156
Cash and cash equivalents:		
Beginning of year	<u>2,056,895</u>	<u>1,234,738</u>
End of year	<u>\$ 2,135,828</u>	<u>\$ 2,056,895</u>

The Authority's available cash and cash equivalents increased from \$2.06 million at the end of 2010 to \$2.14 million at the end of 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of June 30, 2011 amounted to \$21 million (net of accumulated depreciation). This investment in capital assets primarily includes buildings, land, leasehold improvements, and equipment. Capital asset events during the current fiscal year included donated assets from Altria with a value of approximately \$282,500 and 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	52	24,300	10,430	1995
BioTech One	287	103,683	64,204	1996
BioTech Two ^(A)	136	133,700	133,700	1998
BioTech Three ^(B)	125	38,072	35,230	1996
BioTech Five	13	13,400	13,400	1999
BioTech Six	230	191,000	191,000	2003
BioTech Seven ^(C)	340	80,000	80,000	2002
BioTech Eight ^(D)	280	76,300	76,300	2007
BioTech Nine ^(C)	<u>600</u>	<u>450,000</u>	<u>450,000</u>	2007
Total	<u>2,063</u>	<u>1,110,455</u>	<u>1,054,264</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, LLC

The BioTech Center has 11,138 leasable square feet and was 94 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 100 percent occupied at June 30, 2011. All other BioTech buildings were 100 percent occupied.

Long-Term Debt

Bonds

At June 30, 2011, the Authority had \$37.6 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, 2011 was \$875 thousand.

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, 2011 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, 2011 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, 2011 the tax-exempt note had a balance of \$5.60 million.

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, 2011 the line of credit had a balance of \$2.70 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, 2011

ASSETS

Current assets:	
Cash and cash equivalents (Note 2)	\$ 187,183
Cash with trustee (Note 2)	199,451
Cash with Local Government Investment Pool (Note 2)	1,749,194
Accounts receivable, net of allowance for doubtful accounts of \$-0-	286,760
Prepaid expenses	3,104
Net investment in lease receivable (Note 5)	2,755,000
BioTech Eight, LLC HLA Lab Receivable (Note 3)	169,810
Total current assets	<u>5,350,502</u>
Non-current assets, net of depreciation:	
Net investment in lease receivable (Note 5)	36,739,999
Investment in Biotech 8, LLC (Note 13)	53,605
Biotech Eight, LLC HLA Lab Receivable (Note 3)	466,978
Non-depreciable capital assets (Note 4)	5,280,354
Depreciable capital assets, net of accumulated depreciation (Note 4)	15,457,782
Total non-current assets	<u>57,998,718</u>
Total assets	<u>63,349,220</u>

LIABILITIES

Current liabilities:	
Accounts payable	174,170
Customer deposit	15,144
Deferred income	255,377
Long-term debt - current portion (Note 7)	6,924,428
Total current liabilities	<u>7,369,119</u>
Non-current liabilities:	
Long-term debt (Note 7)	42,463,018
Compensated absences (Note 1 and 7)	8,641
Total non-current liabilities	<u>42,471,659</u>
Total liabilities	<u>49,840,778</u>

NET ASSETS

Invested in capital assets, net of related debt	11,305,428
Unrestricted	2,203,014
Total net assets	<u>\$ 13,508,442</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, 2011

Operating revenues:	
Rental income	\$ 2,808,980
Parking income	284,475
Business support services	62,715
Development Fee	19,270
Assessment Fee	281,218
Interest income	3,442
Other income	<u>50,225</u>
 Total operating revenues	 <u>3,510,325</u>
Operating expenses:	
Salaries and benefits	982,788
Marketing and promotion	19,802
Occupancy costs	822,685
Administrative	211,956
Depreciation expense	602,962
Bad debt expense	2,507
Other expenses	<u>-</u>
 Total operating expenses	 <u>2,642,700</u>
 Income from operations	 <u>867,625</u>
Non-operating revenue/(expenses):	
Contribution of equipment	282,500
Loss from Biotech Eight LLC	(56,392)
Other non-Operating Revenue	51,502
Interest revenue	1,784,639
Interest expense	(2,044,004)
Biotech 10 expenses	(59,910)
Income from funds in trust	190
HLA Loan Payments	51,155
VBDC Reimbursements	<u>86,745</u>
 Total non-operating activity	 <u>96,425</u>
 Change in net assets	 964,050
 Net assets - beginning of year	 <u>12,544,392</u>
 Net assets - end of year	 <u>\$ 13,508,442</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, 2011

Cash flows from operating activities:	
Cash received from rent	\$ 2,761,744
Cash received from parking	284,475
Cash received from assessment program	281,218
Cash received from business support services	62,715
Cash received from development fees	19,270
Cash received from miscellaneous income	53,667
Payments for personnel expenses	(965,470)
Payments for marketing expenses	(19,802)
Payments for occupancy expenses	(793,533)
Payments for administrative expenses	(203,222)
Net cash provided by operating activities	<u>1,481,063</u>
Cash flows from non-capital financing activities:	
VBDC reimbursements	<u>86,745</u>
Net cash used by noncapital financing activities	<u>86,745</u>
Cash flows from capital and related financing activities:	
Lease Receivable - Biotech 6	2,630,000
HLA payments received	235,116
Interest revenue	1,784,829
Principal paid	(3,998,755)
Interest paid	(2,108,760)
Non-operating expenses	(59,910)
Fixed asset additions	(22,899)
In-kind contribution of equipment	<u>51,504</u>
Net cash used by capital and related financing activities	<u>(1,488,876)</u>
Net increase in cash	<u>78,932</u>
Cash and cash equivalents - 6/30/10	<u>2,056,895</u>
Cash and cash equivalents - 6/30/11	<u>\$ 2,135,827</u>

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

Operating income	\$	867,625
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		602,962
Increase in accounts payable		29,152
Decrease in operating accounts receivable		(50,918)
Increase in operating benefits payable		22,758
Increase in customer deposits		4,982
Decrease in deferred income		(1,299)
Decrease in prepaid expenses		8,734
Decrease in leave accrual		(5,440)
Bad Debt expense		2,508
		<hr/>
Net cash used by operating activities	\$	<u>1,481,063</u>

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

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2011

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, 2011.

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, 2011. 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, 2011 the balance was \$636,788 and 45 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, 2011 is presented as follows:

	Beginning Balance	Acquired	Deleted	Ending Balance
Land	\$ 5,280,354	\$ -	\$ -	\$ 5,280,354
Buildings	24,107,571	-	-	\$24,107,571
Equipment	439,199	305,399	-	\$ 744,598
Leasehold improvements	<u>1,824,815</u>	<u>-</u>	<u>-</u>	<u>1,824,815</u>
Total at historical cost	<u>31,651,939</u>	<u>305,399</u>	<u>-</u>	<u>31,957,338</u>
Less accumulated depreciation for:				
Buildings	8,678,944	465,121	-	\$ 9,144,065
Equipment	232,211	64,561	-	\$ 296,772
Leasehold improvements	<u>1,705,085</u>	<u>73,280</u>	<u>-</u>	<u>1,778,365</u>
Total accumulated depreciation	<u>10,616,240</u>	<u>602,962</u>	<u>-</u>	<u>11,219,202</u>
Capital assets, net	<u>\$21,035,699</u>	<u>\$ (297,563)</u>	<u>\$ -</u>	<u>\$20,738,136</u>

The increase in the Authority's equipment is from Altria Donated Equipment and the purchase of a new Vacuum System and Air Compressor for BioTech One.

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 \$50,612,674 at June 30, 2011, which equals the remaining principal and interest due on the debt for the BioTech Six building. The financial statements include unearned income of \$11,117,675 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, 2011:

	<u>2011</u>
Current portion:	
Minimum lease payments receivable	\$ 4,414,875
Less: unearned revenue	<u>(1,659,875)</u>
Current net investment in lease receivable	<u>2,755,000</u>
Non-current portion:	
Minimum lease payments receivable	46,197,799
Less: unearned revenue	<u>(9,457,800)</u>
Non-current net investment in lease receivable	<u>36,739,999</u>
Total net investment in lease receivable	<u>\$ 39,494,999</u>

At June 30, 2011, lease payments for each of the succeeding fiscal years are as follows:

<u>Year</u>	<u>Amount</u>
2012	4,414,875
2013	3,398,475
2014	4,756,900
2015	4,755,150
2016	4,756,950
2017 – 2022	<u>28,530,324</u>
Total lease payments	<u>\$50,612,674</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, 2011:

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.	\$1,125,000
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.	2,755,000
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.	5,606,870
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>\$48,927,707</u>

Long-term debt matures as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$6,880,856	\$1,877,043	\$8,757,900
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	4,188,082	1,238,244	5,426,325
2017-2021	20,085,000	3,689,325	23,774,325
2022	4,640,000	116,000	4,756,000
Total	\$48,927,707	\$11,668,636	\$60,596,343

A summary of changes in the Authority's non-current liabilities for the year ended June 30, 2011 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	\$43,480,000	\$ -	\$ 2,860,000	\$40,620,000	\$3,005,000
Unamortized bond premium	4,157,004	-	377,734	3,779,270	357,839
Less:					
Deferral on refunding	2,939,801	-	250,195	2,689,606	250,195
Underwriters Discount	<u>692,710</u>	<u>-</u>	<u>62,785</u>	<u>629,925</u>	<u>64,072</u>
Net bonds payable	44,004,493	-	2,924,754	41,079,739	3,048,572
Notes payable:					
BioTech One Note	6,745,625	-	1,138,755	5,606,870	1,175,019
Line of Credit	<u>2,700,837</u>	<u>-</u>	<u>-</u>	<u>2,700,837</u>	<u>2,700,837</u>
Total long-term debt	53,450,955	-	4,063,509	49,387,446	6,924,428
Compensated absences	<u>14,081</u>	<u>-</u>	<u>5,440</u>	<u>8,641</u>	<u>-</u>
Total long-term liabilities	<u>\$53,465,036</u>	<u>\$ -</u>	<u>\$ 4,068,949</u>	<u>\$49,396,087</u>	<u>\$6,924,428</u>

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. At June 30, 2011, the unrefunded bonds had a balance of \$2,630,000.

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, 2010, 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 \$77,065 for the year ended June 30, 2011. These contributions included the employee contribution and life insurance assumed by the employer. For fiscal year 2011 the contribution rate was 11.74 percent and the life insurance rate for nine months was .28 percent. Contributions to the VRS were calculated using a base salary amount of approximately \$641,137 for the fiscal year ended June 30, 2011. The Authority's total payroll and benefits prior to any reimbursements was \$982,788 for the year ended June 30, 2011.

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

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. The Authority did not receive adjunct faculty contributions from Virginia Commonwealth University during fiscal year 2011.

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 2011 were reimbursed by the VBDC.

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. 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. 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. 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 amended Operating Agreement also removed the requirement for additional cash calls. The net investment in BioTech Eight, LLC was \$53,605 at June 30, 2011. The building was 100 percent occupied as of June 30, 2011, and total project costs were in excess of \$22 million.

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 for 30 years. Parties closed on November 17, 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 timetable for Biotech Ten may be delayed due to the decision by the Prospective Lead Tenant to acquire another property on North Second Street, thereby relieving the immediate need to construct Biotech Ten.

In order to accommodate the Health Diagnostic Laboratory (HDL) expansion, the occupants of Biotech 5, Infilco Degremont, have agreed to sublease Biotech 5 to HDL. However, the Bonds utilized to finance Biotech 5 included a tax-exempt series which HDL will not qualify for under a “change of use”. Thus, on August 19, 2011 the VBRPA notified the Trustee of the intent to call the bonds. On September 19, 2011, the VBPRPA paid off the bonds removing any restriction for HDL to sublease Biotech 5 from Infilco Degremont.

The VBRPA will purchase Biotech 3 from the Virginia Commonwealth University Real Estate Foundation at an agreed purchase price of \$1,762,500. The Biotech Park will assign the purchase contract for Biotech 3 to Biotech 8 LLC (or related entity), in order to construct a new 100,000 sq. ft., \$26 million facility to accommodate further expansion of Health Diagnostic Laboratory.



Walter J. Kucharski
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 6, 2011

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, 2011, 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, 2011, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 8 is not a required part of the basic financial statements, but is supplementary information required by the 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 6, 2011, 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

AVG/clj

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY

(As of June 30, 2011)

Michael Rao, Chair
Benjamin J. Lambert III, Vice Chair
Samuel B. Hunter, Secretary
William H. Weirich, Treasurer
Robert T. Skunda, Executive Director

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

VIRGINIA BIOTECHONLOGY RESEARCH PARK CORPORATION

(As of June 30, 2011)

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

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