

AUDIT SUMMARY

Our audit of the **Virginia Biotechnology Research Park Authority** for the year ended June 30, 1999, found:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;
- internal control matters that we consider reportable conditions; however, we do not consider any of these material weaknesses; and,
- no instances of noncompliance that are required to be reported.

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BOARD MEMBERS

October 30, 1999

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, 1999, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We have audited the consolidated statement of financial position of the Virginia Biotechnology Research Park Authority as of June 30, 1999, and the related consolidated statements of activities and cash flows for the year then ended. The financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Biotechnology Research Park Authority as of June 30, 1999, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Virginia Biotechnology Research Park Authority as of and for the year ended June 30, 1999, 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure over financial reporting that, in our judgement, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the section entitled "Internal Control Findings and Recommendations."

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. 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. However, we believe that none of the reportable conditions described above is a material weakness.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on December 6, 1999.

AUDITOR OF PUBLIC ACCOUNTS

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whb:171

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Develop a Memorandum of Understanding for Accounting Services

Since December 1997, Virginia Commonwealth University Real Estate and Foundation Services Department has performed accounting and reporting functions for the Authority. However, the Authority has not provided the Services Department with clear guidance or documentation expressing its needs and who has what responsibility for the processing of transactions and preparing reports and other financial information. As an example, the Authority did not explicitly require the Department to prepare financial statement footnotes for fiscal year 1999 and therefore, the Authority did not have these notes.

We recommend that the Authority develop a Memorandum of Understanding (MOU) with the Services Department that clearly states the Department's responsibilities. This agreement should contain guidance regarding the processing of financial transactions and any related reporting requirements. Due to the rapid development of the Authority and the evolving role of the Services Department, both parties should review this agreement annually to ensure it addresses all accounting and reporting needs.

Properly Monitor Trustee Accounts

For Biotech II, the Authority employs a trustee for managing accounting, disbursing and investing building construction funds. During the year, the trustee conducted an internal review of this account and it had been reporting overstatement of cash by \$660,191.

The Trustee found prior year accounting errors it had not detected or corrected. Additionally, the Authority has not been performing any comprehensive reconciliation of the Trustee account. During the last four years three different entities have maintain financial records for the Authority, which is the reason for the lack of reconciliation.

As part of its agreement with the Services Department above, the Authority request that they perform a comprehensive reconciliation of the Trustee's account to the inception of the project. In addition, the Authority should include in it agreement the future reconciliation of all trustee accounts by the Services Department.

FINANCIAL STATEMENTS

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
 STATEMENT OF FINANCIAL POSITION
 As of June 30, 1999

ASSETS

Current assets:	
Cash and cash equivalents	\$ 76,705
Cash with trustee	3,392,549
Local government investment pool	121,881
Accounts receivable	47,136
Prepaid expenses	15,231
	<hr/>
Total current assets	3,653,502
Property, plant, and equipment, net of depreciation: (Note 3)	
Land	1,910,915
Buildings	19,961,116
Construction in Progress	777,911
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Total property, plant and equipment	22,649,942
Other assets:	
Capital lease receivable - Biotech Two (Note 4)	48,129,144
Unamortized interest expense	1,835,665
Unamortized bond issue cost	1,346,685
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Total other assets	51,311,494
	<hr/>
Total assets	\$ 77,614,938

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 72,945
Accrued interest payable	87,630
Customer deposit	11,193
Deferred income	249,726
Long-term debt - current portion (Note 5)	1,430,000
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Total current liabilities	1,851,494
Long-term liabilities:	
Long-term debt	45,435,000
Unearned income - Biotech Two	18,014,143
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Total long-term liabilities	63,449,143
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Total liabilities	65,300,637
Unrestricted net assets	12,314,301
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Total liabilities and net assets	\$ 77,614,938

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, 1999

Operating revenues:	
Rent income	\$ 2,120,305
University support (Note 7)	635,458
Interest	9,135
Miscellaneous	49,457
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Total operating revenues	2,814,355
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Operating expenses:	
Salaries and benefits	357,435
Marketing and promotion	150,000
Occupancy costs	610,713
Administrative	90,819
Amortization expense	103,272
Depreciation expense	732,025
Bad debt expense	53,976
Other	41,919
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Total operating expenses	2,140,159
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Net increase in assets from operations	674,196
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Nonoperating revenue (expenses):	
Interest revenue	1,648,432
Interest expense	(2,500,051)
Transfer to Department of General Services	(1,100,000)
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Total nonoperating revenue (expenses)	(1,951,619)
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Increase (decrease) in net assets	(1,277,423)
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Net assets - July 1, 1998 (Note 9)	13,591,724
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Net assets - June 30, 1999	\$ 12,314,301
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The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 1999

Cash flows from operating activities:	
Cash received from tenants, including cash deposits	\$ 1,992,553
Contributions	635,458
Other revenues	58,592
Payments for employees	(357,435)
Payments for marketing expenses	(150,000)
Payments for occupancy expenses	(889,019)
Other expenses	(282,594)
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Net cash provided by operating activities	1,007,555
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Cash flows from capital and related financing activities:	
Proceeds from capital lease payment	885,000
Grant funds received	1,000,000
Payment of note	(1,160,000)
Interest received	1,648,432
Interest paid	(2,583,352)
Transfer to Department of General Services	(1,100,000)
Construction of buildings	(3,453,580)
Proceeds from issuance of debt	3,880,573
Proceeds from assets held by bond trustee	1,956,886
Bond issuance cost	(259,553)
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Net cash provided by capital and related activities	814,406
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Net increase in cash and cash equivalents	1,821,961
Cash and cash equivalents at July 1, 1998	1,769,174
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Cash and cash equivalents at June 30, 1999	<u>\$ 3,591,135</u>
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Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 674,196
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	732,025
Amortization expense	103,272
Bad debt expense	53,976
Decrease in accounts payable	(418,057)
Decrease in accounts receivable	31,720
Increase in deferred income	(163,675)
Increase in customer deposit	4,203
Increase in prepaid expenses	(10,105)
	<hr/>
Net cash provided by operating activities	<u>\$ 1,007,555</u>

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Virginia Biotechnology Research Park Authority (Authority) have been prepared on the accrual basis. The Authority, which began operations effective July 1, 1993, provides a mechanism for financing construction of the biotechnology research park through bond issuances. The Virginia Biotechnology Research Park Corporation is an IRS Code Section 501(c)(3) corporation and is organized and operated exclusively for scientific, educational, and charitable purposes. For financial statement presentation, the Corporation is reflected as a blended component unit of the Authority. Corporation revenues and expenses each totaled \$183,869 for the year ended June 30, 1999.

The Virginia Commonwealth University (VCU) Real Estate and Foundation Services Department is responsible for handling all financial transactions on behalf of the Authority. This includes the preparation of the financial statements.

During fiscal year 1999, the Authority assumed all responsibility to operate, manage, and maintain the Virginia Biotechnology Research Park, including maintaining grounds and overseeing sub-contractors. Prior to fiscal year 1999, the Authority had an agreement with Daniel Realty Services to perform these services.

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. All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 et seq. of the Code of Virginia or covered by federal depository insurance.

3. PROPERTY, PLANT, AND EQUIPMENT

	<u>Total Fixed Assets</u>	<u>Less Accumulated Depreciation</u>	<u>Net Fixed Assets</u>
Land	\$ 1,910,915	\$ -	\$ 1,910,915
Buildings	21,752,257	1,791,141	19,961,116
Equipment	3,010	3,010	-
Construction in progress	<u>777,911</u>	<u>-</u>	<u>777,911</u>
Totals	<u>\$ 24,444,093</u>	<u>\$ 1,794,151</u>	<u>\$ 22,649,942</u>

The Authority's construction in progress totaling \$777,911 represents expenses for architectural fees, planning, and construction costs associated with the Biotech Five building.

4. LEASE RECEIVABLE – BIOTECH TWO

The Authority has a capital lease agreement with the Department of General Services (DGS) for the Biotech Two building with a value of \$48,129,144 at June 30, 1999. Lease payments will continue through 2018 when title to the Biotech II building will transfer to DGS.

5. LONG TERM DEBT

Long-term debt of the Authority consists of the following bonds payable at June 30, 1999:

5.33 percent to 6.25 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech One Project), Series 1998. <i>Note: These bonds were issued during the year to retire \$11.9 million in Tenant Improvement loans with a 9.5 percent interest rate.</i>	\$14,000,000
4.00 percent to 5.30 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech Two Project), Series 1996.	30,115,000
5.25 percent to 6.40 percent Taxable and tax-exempt Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech Five Project), Series 1999A and 1999B.	<u>2,750,000</u>
Total long-term debt	<u>\$46,865,000</u>

Long-term debt matures as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 1,430,000	\$ 2,346,974	\$ 3,776,974
2001	1,580,000	2,436,709	4,016,709
2002	1,655,000	2,359,843	4,014,843
2003	1,745,000	2,277,740	4,022,740
2004	1,830,000	2,189,439	4,019,439
Later Years	<u>38,625,000</u>	<u>16,673,754</u>	<u>55,298,754</u>
Totals	<u>\$ 46,865,000</u>	<u>\$ 28,284,458</u>	<u>\$ 75,149,458</u>

6. RETIREMENT

Employees of the Authority participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers a life insurance plan for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the Authority, has overall responsibility for contributions to these plans.

7. CONTRIBUTIONS

The Authority received \$635,458 in contributions in fiscal year 1999 through Virginia Commonwealth University (VCU). VCU made cash contributions of \$419,369 (unrestricted) and \$178,979 (restricted). The Authority received \$37,110 in adjunct faculty contributions.

8. RELATED PARTY TRANSACTIONS

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

9. ADJUSTMENT TO PRIOR YEAR FUND BALANCE

The Authority adjusted its prior year fund balance as follows:

1998 Authority fund balance	\$ 14,098,096
Adjustment:	
Trustee Reporting Errors	<u>(506,372)</u>
1998 adjusted fund balance	<u>\$ 13,591,724</u>

REQUIRED SUPPLEMENTARY INFORMATION

Many existing computer systems use only two digits to identify a year in the date field. These systems were designed and developed without considering the impact of the upcoming change in the century. If not corrected, these systems could fail or create erroneous results by or at the year 2000 (Y2K).

The Authority's financial system resides solely on a personal computer maintained at VCU's Real Estate and Foundation Services Department. This computer has been tested and is considered Y2K compliant. Other systems impacted by Y2K relate to building construction, such as security systems, elevators, and trustee accounting records. Responsibility for all of these other systems is outsourced and the Authority has received confirmation that these systems are Y2K compliant.

We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of Y2K information. However, we did not audit the information and do not express an opinion on it. Further, we do not provide assurance that the Authority is or will become year 2000 compliant, that the Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties that the Authority does business with are, or will become, year 2000 compliant.

Virginia Biotechnology Research Park Authority Board of Directors

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