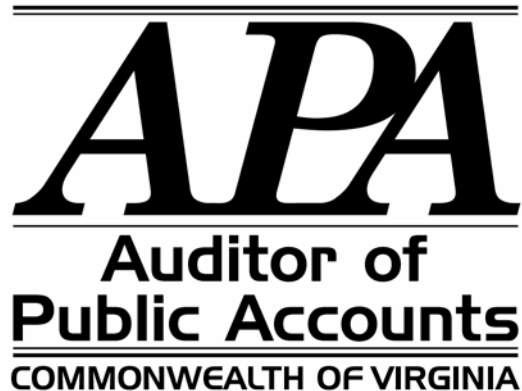


**VIRGINIA BIOTECHNOLOGY  
RESEARCH PARK AUTHORITY**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2005**



## **AUDIT SUMMARY**

Our audit of the Virginia Biotechnology Research Park Authority for the year ended June 30, 2005, found:

- the accompanying financial statements present fairly, in all material respects, the Authority's financial position as of June 30, 2005, and the results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting; and
- no instances of noncompliance with laws and regulations that are required to be reported.

- TABLE OF CONTENTS -

AUDIT SUMMARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL STATEMENTS:

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

Notes to Financial Statements

INDEPENDENT AUDITOR'S REPORTS:

Report on Financial Statements

Report on Internal Control over Financial Reporting and on Compliance and Other Matters

BOARD MEMBERS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

This section is intended to provide an overview of the financial activity of the Virginia Biotechnology Research Park Authority (Authority) and, as such, should be read in conjunction with the accompanying financial statements.

### Summary of Organization and Business

The Authority is a political subdivision of the Commonwealth of Virginia, established in 1993 by an act of the Virginia General Assembly. The Authority provides a mechanism for financing construction of the Virginia BioTechnology Research Park (Research Park) through bonds and other authorized means. The Virginia BioTechnology Research 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 \$80,699 for fiscal year 2005.

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 (VCU) that houses laboratories for companies, research institutes, non-profits and the state government on a 34-acre campus in downtown Richmond, Virginia. The mission of the Authority is to advance life sciences by promoting and commercializing scientific research, thereby creating investment and jobs.

The Authority does not have taxing power. Operations are funded from lease and ancillary service revenues. Bond issuances, long-term notes payable, and appropriations from the Commonwealth of Virginia and contract support payments from VCU fund the acquisition and construction of capital assets. The Authority also received funding in previous years through bonds issued by the City of Richmond. As of June 30, 2005, the Research Park was occupied by 38 private and non-profit companies, four state laboratories, and five research institutes/administrative functions of VCU, filled approximately 565,000 square feet of laboratory and office space in eight buildings and employed more than 1,200 individuals.

Philip Morris USA is developing a new research and technology center on land within the Authority, which was assembled and sold to Philip Morris USA. The project is slated for occupancy in mid-2007. The construction is expected to be a capital cost of \$300 million for the Philip Morris Research and Technology Center, which will be 450,000 square feet and house between 600 to 700 employees.

### Highlights

#### Financial Highlights for Fiscal Year 2005

- Cash and cash equivalents increased nearly \$800,000 as a result of activities for the Philip Morris project, further explanation following.
- Net assets of the Authority decreased \$1.6 million of which \$1.4 million was due to the recognized loss on Biotech Two transfer and prior accounting period adjustments.
- Operating revenues decreased \$64,000.
- Operating expenses decreased \$609,000.

### Authority Highlights

- Biotech One and Center, the Research Park's two multi-tenant buildings, had 34 tenant companies. Biotech One was 100 percent occupied and Biotech Center was 95 percent occupied at June 30, 2005.

### **Overview of Annual Financial Report**

The 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 consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Assets presents the financial position of the Authority on an accrual basis including information about the type and amount of resources and obligations at June 30, 2005. The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of the Authority's operating and nonoperating activities and provides 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 and financing activities. The Authority currently has no investing activities and, as such, this section is not presented.

The Notes to 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 following schedule reflects the condensed Statement of Net Assets compared to the prior year. Authority net assets decreased \$1,614,585. Long-term liabilities and other assets decreased mainly as a result of the payoff of Biotech Two and land transfer for the Philip Morris project. For more detailed information, see the accompanying Statement of Net Assets.

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Assets:			
Current and other assets	\$ 83,024,953	\$125,942,796	\$(42,917,843)
Capital assets - net	<u>23,131,192</u>	<u>24,471,907</u>	<u>(1,340,715)</u>
Total assets	<u>106,156,145</u>	<u>150,414,703</u>	<u>(44,258,558)</u>
Liabilities:			
Current and other liabilities	30,850,347	46,066,550	(14,006,203)
Long-term liabilities	<u>63,910,000</u>	<u>91,337,770</u>	<u>(28,637,770)</u>
Total liabilities	<u>94,760,347</u>	<u>137,404,320</u>	<u>(42,643,973)</u>
Net assets	<u>\$ 11,395,798</u>	<u>\$ 13,010,383</u>	<u>\$ (1,614,585)</u>

## Statement of Revenues, Expenses, and Changes in Net Assets

The following schedule compares the revenues and expenses for the current and previous fiscal year.

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Operating revenues:			
Rent and parking income	\$ 3,050,103	\$ 3,093,606	\$ (43,503)
University support	80,699	116,756	(36,057)
Miscellaneous	<u>55,130</u>	<u>39,427</u>	<u>15,703</u>
Total operating revenues	<u>3,185,932</u>	<u>3,249,789</u>	<u>(63,857)</u>
Operating expenses:			
Salaries and benefits	726,499	780,307	(53,808)
Marketing and promotion	41,592	77,463	(35,871)
Occupancy costs	774,683	725,074	49,609
Administrative	129,347	141,985	(12,638)
UNOS master lease	30,000	120,000	(90,000)
Public safety	663	37,386	(36,723)
Amortization expense	175,728	199,274	(23,546)
Depreciation expense	689,095	1,133,833	(444,738)
Other	<u>80,339</u>	<u>41,615</u>	<u>38,724</u>
Total operating expenses	<u>2,647,946</u>	<u>3,256,937</u>	<u>(608,991)</u>
Operating income/(loss)	537,986	(7,148)	545,134
Nonoperating revenues/(expenses):			
DCLS project revenue	118,064	-	118,064
Fee from Fiber project	27,115	-	27,115
Biotech Two bond transfer/(Loss)	(439,125)	-	(439,125)
VCUREF for guarantee of Biotech Five	(2,429)	-	(2,429)
In-kind expense VBDC	(204,559)	-	(204,559)
Interest revenue	3,942,911	4,074,094	(132,679)
Interest expense	(4,768,243)	(4,933,200)	164,957
Developer's fees	70,244	72,681	(2,437)
Federal Earmark Grant Revenue	22,285	(52,666)	74,951
Reimbursement for land purchases	-	1,893,561	(1,893,561)
Income from trust	<u>8,802</u>	<u>9,573</u>	<u>725</u>
Total nonoperating activity	<u>(1,224,935)</u>	<u>1,064,043</u>	<u>(2,288,978)</u>
Change in net assets	(686,949)	1,056,895	(1,743,844)
Net assets - beginning of year	<u>12,082,747</u>	<u>11,953,488</u>	<u>129,259</u>
Net assets - end of year	<u>\$11,395,798</u>	<u>\$13,010,383</u>	<u>\$(1,614,585)</u>

Total operating revenues decreased \$64,000 over the previous fiscal year. University support decreased \$36,000 in accordance with the Authority's plan for reduction in University operating support. VCU continued to support the Authority through unoccupied space support in accordance with VCU's master lease on Biotech One.

Operating expenses were \$609,000 lower, overall. Occupancy expense increased \$50,000 due to the increased utility costs. Other expense increased \$39,000 from the recognition of bad debt expense.

### Capital Assets and Long-Term Debt

The Authority began construction on May 1, 2001, of Biotech Six, a \$60 million project, which houses the Virginia Division of Consolidated Laboratory Services (DCLS). Completed in May 2003, DCLS occupies 191,000 square feet of state-of-the-art laboratory space and employs 225 scientists, technicians, and administrative personnel. The Authority, through the issuance of Series 2001 \$60,010,000 lease revenue bonds financed the construction project. Debt service will be handled by DCLS through direct payments to the bond trustee; however, the Authority will carry these balances and adjust the account balance accordingly.

The Authority issued \$12 million of bonds in April 2002 as a conduit to finance construction of the new national headquarters of the United Network for Organ Sharing (UNOS). Designated as Biotech Seven, the new UNOS headquarters building is an 80,000 square-foot facility that UNOS owns and occupies.

The Authority has completed construction on eight buildings and is leasing space in one other facility. When fully developed, the Research Park will contain 1.3 to 1.5 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.

### Philip Morris USA Center for Research and Technology

On April 5, 2005, Philip Morris USA, the Research Park, Office of the Governor, and officials from the City of Richmond announced that Philip Morris USA would consolidate worldwide research activities into a new 450,000 square feet, \$300 million Center for Research and Technology to be built in the Research Park. The new Center will house between 600 and 700 Philip Morris employees and contractors, scientists, engineers and support personnel; combining scientific research activities currently underway at a number of U.S. and global sites. 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. The new facility is expected to open in mid-2007.

The Philip Morris project was an unusual financial transaction for the Authority because it involved incentives from the Commonwealth which were part of the commitment made to Philip Morris in return for their selection of the Research Park as a site for their new \$300 million Center for Research and Technology. A Memorandum of Understanding, executed by the Commonwealth, City of Richmond, Virginia Bio-Technology Research Park and Philip Morris USA and dated April 1, 2005, stipulated that Philip Morris would receive lands owned by the Research Park and City of Richmond at no cost to the company, as a part of the incentive package.

The Authority received a \$3.2 million appropriation from the Commonwealth of Virginia for the Philip Morris project. Of this amount, \$1.1 million was transferred to Philip Morris as a "pass through" to acquire land which the Authority had secured under purchase contract in Block N-24 and subsequently assigned those contracts to Philip Morris. The remaining \$2.1 million was retained by the Authority as compensation for two parcels in Block N-13 that the Authority had previously purchased and had outstanding parking leases and bank loans on those parcels. The \$2.1 million covered pay-off of the loans, lease

cancellations, lost parking revenues for the two years the project is under construction, and the basis that the Authority had in the land parcels themselves, as well as a few additional miscellaneous costs. On June 1, 2005 the Authority transferred these parcels to Philip Morris USA for construction of the project.

<u>Building</u>	<u>Number of Occupants</u>	<u>Total Square Feet</u>	<u>Leased Square Feet</u>	<u>Date Acquired/Constructed</u>
Biotech Center	50	27,455	10,285	1995
Biotech One	302	106,342	93,413	1996
Biotech Two <sup>(A)</sup>	203	102,124	102,124	1998
Biotech Three <sup>(B)</sup>	106	31,124	31,124	1996
Biotech Four <sup>(B)</sup>	46	12,488	12,448	1996
Biotech Five	13	13,400	13,400	1999
Biotech Six	250	191,000	191,000	2003
Biotech Seven	250	80,000	80,000	2002
Public Safety <sup>(C)</sup>	<u>1</u>	<u>795</u>	<u>795</u>	1999
Total	<u>1221</u>	<u>564,728</u>	<u>534,589</u>	

<sup>(A)</sup>Property now owned by the Commonwealth of Virginia

<sup>(B)</sup>Property owned by VCU Real Estate Foundation

<sup>(C)</sup>Space leased from City of Richmond

### **Subsequent Events**

On March 26, the 2005 Session of the Virginia General Assembly passed House Bill (HB1801) amending the 1993 Acts of Assembly that created the Authority. HB1801 clarifies certain powers of the Authority to be used throughout the Commonwealth and expands the Board of Directors of the Authority in the event of such initiatives, which may be funded by the Commonwealth of Virginia. Effective July 1, 2005, the Authority was renamed the Virginia Biotechnology Research Partnership Authority.

On August 9, 2005, the Authority received an additional \$282,131 reimbursement from the Commonwealth for the Philip Morris project, and on November 30, 2005, the Authority received a \$202,711.01 reimbursement from the company for direct expenses associated with the land purchases and assemblage. These two actions, while outside of the fiscal year, concluded all financial matters regarding the April 1, 2005 Memorandum of Understanding and repaid the Authority for liabilities which had been incurred on behalf of the company regarding locating the Center in the Park.



VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY  
STATEMENT OF NET ASSETS  
As of June 30, 2005

ASSETS	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 1,302,617
Cash with trustee invested (Note 3)	729,954
Cash with Local Government Investment Pool (Note 3)	50,346
Accounts receivable, net of allowance for doubtful accounts of \$68,122 (Note 4)	390,965
Prepaid expenses	11,883
Capital lease receivable - Biotech Six - current (Note 6)	4,690,606
	<u>7,176,371</u>
Total current assets	
Noncurrent assets, net of depreciation:	
Capital lease receivable - Biotech Six (Note 6)	75,505,616
Unamortized interest expense	342,966
Nondepreciable capital assets (Note 5)	5,057,082
Depreciable capital assets, net of accumulated depreciation (Note 5)	18,074,110
	<u>98,979,774</u>
Total noncurrent assets	
Total assets	
	<u>106,156,145</u>

LIABILITIES	
Current liabilities:	
Accounts payable	270,046
Customer deposit	36,240
Unearned revenue - Philip Morris project cost	75,946
Unearned parking revenue - Philip Morris project	430,833
DCLS payable	118,064
Deferred income	213,204
Prepaid rent	18,802
Benefits payable	181
Long-term debt - current portion (Note 8)	2,975,000
Unearned revenue - Biotech Six - current (Note 6)	2,564,906
Accrued EDA expense - current (Note 11)	73,478
Compensated absences	3,734
	<u>6,780,434</u>
Total current liabilities	
Noncurrent liabilities:	
Long-term debt (Note 8)	63,910,000
Accrued EDA expense (Note 11)	143,599
Unamortized bond issue cost (premium)	449,996
Unearned revenue - Biotech Six (Note 6)	23,476,318
	<u>87,979,913</u>
Total noncurrent liabilities	
Total liabilities	
	<u>94,760,347</u>

NET ASSETS	
Invested in capital assets, net of related debt	10,401,194
Unrestricted	994,604
	<u>994,604</u>
Total net assets	
	<u>\$ 11,395,798</u>

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

VIRGINIA BIOTECHNOLOGY RESEARCH PARK  
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS  
For the year ended June 30, 2005

Operating revenues:	
Rental income	\$ 2,720,395
Parking income	329,708
University and other support (Note 10)	80,699
Other income	<u>55,130</u>
Total operating revenues	<u>3,185,932</u>
Operating expenses:	
Salaries and benefits	726,499
Marketing and promotion	41,592
Occupancy costs	774,683
Administrative	129,347
UNOS master lease	30,000
Q-LOT	10,355
Public Safety building - City of Richmond	663
Amortization expense	175,728
Depreciation expense (Note 5)	689,095
Bad debt expense	68,122
Other expenses	<u>1,862</u>
Total operating expenses	<u>2,647,946</u>
Income from operations	<u>537,986</u>
Nonoperating revenue/(expenses):	
DCLS additional rent - bond servicing fee	70,244
DCLS project revenue	118,064
Federal earmark grant revenue	22,285
Fee from FIBER project	27,115
VCUREF for guarantee on Biotech Five	(2,429)
VBDC in kind expense (Note 12)	(204,559)
Biotech Two bond transfer/(loss)	(439,125)
Interest revenue	3,942,911
Interest expense	(4,768,243)
Income from funds in trust	<u>8,802</u>
Total nonoperating activity	<u>(1,224,935)</u>
Change in net assets	(686,949)
Net assets - beginning, as restated (Note 2)	<u>12,082,747</u>
Net assets - end of year	<u><u>\$ 11,395,798</u></u>

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

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY  
STATEMENT OF CASH FLOWS  
For the year ended June 30, 2005

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Cash flows from operating activities:	
Cash received from rent	\$ 2,897,759
Cash received from parking	290,541
Cash received from University and other support	80,699
Cash received from miscellaneous income	55,130
Payments for personnel expenses	(753,927)
Payments for marketing expenses	(41,592)
Payments for occupancy expenses	(586,292)
Payments for administrative expenses	(129,347)
Payments for other expenses	(42,880)
	<hr/>
Net cash provided by operating activities	1,770,091
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Cash flows from noncapital financing activities:	
Payments made on behalf of VBDC	(204,559)
Federal grant	22,285
	<hr/>
Net cash used by noncapital financing activities	(182,274)
	<hr/>
Cash flows from capital and related financing activities:	
Payments for EDA settlement	(94,153)
Proceeds from developer's fees	70,244
Net proceeds from Philip Morris project	1,750,929
CIP payments Biotech 8	(14,213)
Payments for Biotech 6 project	(179,700)
FIBER Project fee	27,115
VCUREF Biotech 5 payment	(2,429)
Interest revenue	10,298
Principal and interest received from capital lease payments	7,111,526
Miscellaneous income	9,502
Interest paid on Biotech 2 & 6	(3,931,526)
Principal paid on Biotech 2 & 6	(3,180,000)
Interest paid - other	(836,717)
Principal paid - other	(1,591,245)
Principal borrowed on nonlease-related debt	264,000
Fixed asset additions	(725,660)
	<hr/>
Net cash used by capital and related financing activities	(1,312,029)
	<hr/>
Net increase in cash	275,788
	<hr/>
Cash and cash equivalents - Beginning of the year	1,807,129
	<hr/>
Cash and cash equivalents - End of the year	<u>\$ 2,082,917</u>

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

Operating income	\$ 537,986
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	689,095
Amortization expense	175,728
Parking revenue reimbursement	(39,167)
Increase in accounts payable	193,705
Decrease in benefits payable	(19,819)
Decrease in operating accounts receivable	85,849
Decrease in customer deposits	(11,478)
Increase in deferred income	152,313
Increase in prepaid rent	18,802
Increase in prepaid expenses	(5,314)
Decrease in leave accrual	(7,609)
	<hr/>
Net cash used by operating activities	\$ 1,770,091
	<hr/> <hr/>
Noncash capital and related financing activities:	
Land provided for Philip Morris Project	\$1,391,493
	<hr/>
Total noncash capital and related financing activities	\$1,391,493
	<hr/> <hr/>

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

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Biotechnology Research Park Authority (Authority), which began operations effective July 1, 1993, provides a mechanism for financing construction of the Virginia BioTechnology Research Park (Research Park) through bond issuances. The Virginia Biotechnology Research Park Corporation (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 \$80,699 for the year ended June 30, 2005.

The Authority is responsible for operating, managing, and maintaining Research Park properties including maintaining grounds and oversight of sub-contractors.

The Authority is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

B. Basis of Accounting

The financial statements of the Authority have been prepared using the economic resources measurement focus and the accrual basis of accounting.

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 noncapitalized leases with lease terms of one year or less; 2) contributions of the Commonwealth of Virginia, Virginia Commonwealth University (VCU), 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) 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 nonoperating 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 fees earned on bond issuances.

C. Asset Capitalization and Depreciation Method

Fixed assets are recorded at cost at the time of acquisition. Fixed assets with a value in excess of \$2,500 are capitalized. Donated fixed 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 property ranging from 2 to 60 years. Depreciable fixed assets were evaluated at the beginning of the fiscal year and determined to have 40 years of useful life remaining from July 2004 going forward.

2. NET ASSETS RESTATED

Adjustments were made to beginning net assets to conform to generally accepted accounting principles in the United States of America related to the accounting for the Biotech Two and Six capital leases. In addition, adjustments were made to recognize previously unrecorded revenue and liability related to the DCLS project. There was also an adjustment for previous year account reconciliation errors. These adjustments have the following cumulative effect on the Research Park's net assets:

Net assets as reported at June 30, 2004	\$13,010,383
Accounting adjustments regarding Biotech Two and Six	(689,277)
Adjustment to recognize DCLS project	(236,127)
Adjustment for reconciliations	<u>(2,232)</u>
Net asset balance at June 30, 2004	<u>\$12,082,747</u>

3. 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 2.2-4400, and et seq. of the Code of Virginia or covered by federal depository insurance. Other funds of the Authority are invested in the State Treasurer's Local Government Investment Pool (LGIP), whose carrying value is equal to the market value. LGIP fund is a Standard & Poor's AAA rated investment pool. Cash with the trustee represents bond proceeds held by trustees.

4. ACCOUNTS RECEIVABLE

The following table details accounts receivable at June 30, 2005:

	<u>Receivable Balance</u>
Rent receivable	\$458,779
Miscellaneous receivables	<u>308</u>
Total account receivable	459,087
Less: Allowance for doubtful accounts	<u>(68,122)</u>
Net account receivable	<u>\$390,965</u>

## 5. PROPERTY, PLANT, AND EQUIPMENT

	Beginning Balance as of <u>July 1, 2004</u>	Acquired/ (Increased)	Deleted/ (Decreased)	Ending Balance as of <u>June 30, 2005</u>
Land	\$ 5,642,075	\$681,355	\$1,391,493	\$ 4,931,937
Construction-in-progress	110,932	14,213	-	125,145
Buildings	24,107,571	-	-	24,107,571
Equipment	309,802	11,287	-	321,089
Leasehold improvements	<u>1,421,730</u>	<u>33,018</u>	-	<u>1,454,748</u>
Total at historical cost	<u>31,592,110</u>	<u>739,873</u>	<u>1,391,493</u>	<u>30,940,490</u>
Less accumulated depreciation for:				
Buildings	5,888,217	465,120	-	6,353,337
Equipment	66,450	22,220	-	88,670
Leasehold improvements	<u>1,165,535</u>	<u>201,755</u>	-	<u>1,367,290</u>
Total accumulated depreciation	<u>7,120,202</u>	<u>689,095</u>	-	<u>7,809,297</u>
Capital assets, net	<u>\$24,471,908</u>	<u>\$ 50,776</u>	<u>\$1,391,493</u>	<u>\$23,131,193</u>

The Authority's construction-in-progress represented expenses for architectural fees and planning costs associated with the project known as Biotech Eight. The leasehold improvement amount represents renovation costs for the Biotech One building. Equipment represents repairs to the HVAC system for Biotech One and Biotech Center buildings and installation of a new network server. The land costs are associated with the purchase of the Wizer lots and the disposition of land to Philip Morris.

## 6. LEASES

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 \$80,196,222 at June 30, 2005, which equals the remaining principal and interest due on the debt for the Biotech Six building. The financial statements include unearned income of \$26,041,224 related to the capital lease receivable for interest due in future periods.

The Authority also has an operating lease with Infilco Degremont, Inc., on the Biotech Five building, which expires on October 31, 2013. Future principal lease payments total \$2,240,000.

## 7. CONDUIT DEBT OBLIGATIONS

On April 9, 2002, the Authority issued \$12 million in Series 2002 variable rate revenue bonds to fund construction of the Biotech Seven Project. Biotech Seven is an office facility built specifically for lease to the United Network for Organ Sharing (UNOS). 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. 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.

8. LONG-TERM DEBT

Long-term debt of the Authority consists of the following bonds and notes payable at June 30, 2005:

5.33 percent to 6.25 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia lease revenue bonds, (Biotech One Project), Series 1998. These bonds were issued to retire \$11.9 million of tenant improvement loans, which were originally financed with a 9.5 percent interest rate.	\$10,490,000
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.	2,240,000
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.	<u>54,155,000</u>
Total long-term debt	<u>\$66,885,000</u>

Long-term debt matures as follows:

	<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
	2006	\$ 2,975,000	\$ 3,303,415	\$ 6,278,415	
	2007	3,130,000	3,155,879	6,285,879	
	2008	3,280,000	3,009,030	6,289,030	
	2009	3,440,000	2,855,894	6,295,894	
	2010	3,610,000	2,692,851	6,302,851	
	2011 - 2015	21,225,000	10,420,434	31,645,434	
	2016 - 2020	20,185,000	4,771,351	24,956,351	
	2021 - 2025	<u>9,040,000</u>	<u>457,750</u>	<u>9,497,750</u>	
	Total	<u>\$66,885,000</u>	<u>\$30,666,604</u>	<u>\$97,551,604</u>	
	<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	\$94,820,000	\$ -	\$27,935,000	\$66,885,000	\$2,975,000
Notes payable:					
Deed of Trust	<u>532,637</u>	<u>264,000</u>	<u>796,637</u>	-	-
Total	<u>\$95,352,637</u>	<u>\$264,000</u>	<u>\$28,731,637</u>	<u>\$66,885,000</u>	<u>\$2,975,000</u>



9. 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. The Commonwealth, not the Authority, has overall responsibility for contributions made to these plans.

10. FINANCIAL SUPPORT

The Authority received \$80,699 from VCU during fiscal year 2005. VCU made contributions of \$37,000 (unrestricted), and \$43,699 (adjunct faculty contributions). The Authority has entered into a lease agreement with VCU. On August 19, 1994, a Memorandum of Understanding was signed committing VCU to a 20-year master lease (ending December 31, 2015) 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 \$2.2 million annually for the remainder of the lease term.

11. ACCRUED EDA LIABILITY

The Authority was involved in a dispute brought by the Economic Development Administration (EDA) related to grant funds received for construction costs. After receiving an appeal from the Authority, the EDA imposed a fee of \$366,283 in settlement of the issue and agreed to a five-year repayment schedule. As of June 30, 2005, \$217,077 plus interest remains outstanding.

12. RELATED PARTY TRANSACTIONS

During fiscal year 2002, the Authority established the Virginia Biosciences Development Center. The Center 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 the Center during fiscal year 2005 totaled \$204,559.

13. PHILIP MORRIS PROJECT

During the fiscal year, the Park received \$3.2 million from the Commonwealth of Virginia for the Philip Morris project for the purpose of reimbursing the Park for the loss of \$470,000 in parking revenues, in addition to land costs and other expenses of approximately \$1.3 million and \$360,000, respectively. The Park passed the remaining \$1.1 million to Philip Morris USA.

The Park will recognize the unearned parking revenue over the next two years. As of fiscal year end, approximately \$430,833 remained unrecognized. Of the remaining \$2.7 million, the Park has \$75,946 unspent at the end of the year.

#### 14. 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 of Virginia. 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.



# Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

November 14, 2005

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Directors  
Virginia Biotechnology Research Park

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying the accompanying basic financial Statements of the **Virginia Biotechnology Research Park Authority**, a component unit of the Commonwealth of Virginia as of and for the year ended June 30, 2005, 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 Authority as of June 30, 2005, and the changes in its net assets 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 5 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.

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

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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Directors, and management and is not intended to be and should not be used by anyone other than these specified 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 19, 2005.

AUDITOR OF PUBLIC ACCOUNTS

SW/kva

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

Eugene P. Trani, Ph.D., Chair

James E. Sheffield, Esq., Vice Chair

G. Gilmer Minor III, Secretary

Ronald D. Wright, Treasurer

Robert T. Skunda, Executive Director

Abhishek Jain, Esq.           The Honorable Michael J. Schewel  
Gerald M. Rubin, Ph.D.    The Honorable L. Douglas Wilder

Patricia Bell Williams, Ph.D., FCP

VIRGINIA BIOTECHNOLOGY RESEARCH PARK CORPORATION

Eugene P. Trani, Ph.D., Chair

Paula S. Gulak, Vice Chair

Samuel B. Hunter, MD, Secretary

Donna J. Edmonds, Treasurer

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Robert L. Hamburger, Ph.D.   The Honorable Michael J. Schewel  
Virgil R. Hazelett           Alanson Van Fleet, Ph.D.  
Frank L. Hurley, Ph.D.       The Honorable L. Douglas Wilder