

Virginia Biotechnology Research Partnership Authority

FINANCIAL STATEMENTS
JUNE 30, 2013



Annual Financial Report

For The

Virginia Biotechnology Research Partnership Authority
(Unaudited)

A Component Unit of the Commonwealth of Virginia

For The Fiscal Year Ended
June 30, 2013

Prepared by the Director of Finance and Human Resources of the
Virginia Biotechnology Research Partnership Authority

TABLE OF CONTENTS

	<u>Pages</u>
INTRODUCTORY SECTION	
Letter from the Executive Director	1-3
Board of Directors	5
FINANCIAL SECTION	
Management's Discussion and Analysis	9-16
Financial Statements:	
Statement of Net Position	19
Statement of Revenues, Expenses, and Change in Net Position	20
Statement of Cash flows	21-22
Notes to the Financial Statements	23-35
SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress	39
INDEPENDENT AUDITOR'S REPORT	
Report on Financial Statements	43-45

Introductory Section

September 1, 2013

To the Authority and Corporation Boards and Stakeholders:

The past year has been one of continued growth and progress for the Virginia Bio-Technology Research Park, with significant new investment and job growth. With the expected transition in leadership planned for the end of calendar 2013, it has also provided the Authority and Corporation Boards the opportunity to discuss the future mission of the Research Park. In particular, as ultimate build-out of the Park's original master planned footprint approaches, the question of how the Park and its governing structure will continue to execute the vision of creating Virginia's premier development for biosciences commerce and research, thereby enhancing the Commonwealth's national and global competitiveness in the life sciences, is one that must be addressed.

New Investment and Continued Growth

The Biotech 8 expansion project for Health Diagnostic Laboratory, Inc. which began in April 2012 with the sale of and demolition of Biotech 3 to make way for the expansion was completed and HDL began moving into its new space beginning in February of this year. The Phase I expansion of Biotech 8 is a 106,000 square foot, six-story lab and office building, with a total cost of \$28 million. Included in the project was a 185 car expansion of the parking deck located behind the original Biotech 8 building. Completion of the Phase I expansion brought HDL's total leasehold interest in the Park to approximately 144,000 square feet and has increased their total employment to 700 people as of June 30.

The second phase of the planned expansion of Biotech 8 was launched simultaneously with the Authority's sale of Biotech 5 in April of this year, to Biotech 8 LLC. The sale of Biotech 5 had previously been approved by the Boards of the Research Park at a set price of \$2,350,000 for the Phase II expansion. Biotech 5 had been under sublease to HDL since early 2012 when the Phase I expansion was underway, and as soon as the new space was ready for occupancy, HDL began relocating functions out of Biotech 5 in order to make way for the demolition, which was completed in 30 days. By June 30, the end of the fiscal year reporting period, all of the subsurface work was complete, the columns were essentially in place up to the second floor of the new structure and the first floor concrete slab was finished in accordance with the project schedule which calls for Phase II to be complete in April 2014.

The Phase II expansion involves a 90,000 square foot, architectural "mirror image" of the Phase I expansion and will complete the frontage along the north side of E. Jackson Street between North Fifth Street and Navy Hill Drive. All six floors of the \$24 million expanded laboratory and office space will be connected and will bring HDL's total occupancy to approximately 234,000 square feet of space and allow the company to add 300 more employees,

Transforming Innovation Into Opportunity

bringing projected employment in the Park to 1,000 when it is completed and occupied.

The Authority is an equity partner in Biotech 8 LLC, the developers and owners of the Biotech 8 project. With the adjustment of equity interest approved by the Boards in April, at the time that the Phase II expansion was starting, the Authority's equity went from a 15.6% interest to a 10.94% position of a combined \$90+ million project. As a limited partner, the Authority's assets are unencumbered and the Park has no leasing or property management responsibilities. In May, the Park received \$89,504 representing the first quarter distribution from Biotech 8 LLC and BioLing, where the Authority holds an 8% position. In calendar 2013, the projected cash flow to the Authority from the project is expected to be approximately \$293,000. It is still anticipated that the project will be marketed and sold to an institutional investor in the 2014-15 timeframe at which time all of the partners will recover their initial equity, plus appreciation based on increased valuation of the overall project and being fully leased. This is consistent with the changing direction for the Park and the Authority discussed last year to begin to exit the real estate ownership and property management responsibilities in projects which the Authority has owned exclusively or in part.

Future Mission and Leadership Transition

With the announced retirement of the Executive Director, President and CEO effective December 31, 2013, the Boards initiated a process to begin to examine what the next phase of the Research Park should be before recruiting a successor. This process began in September 2012 with a presentation by the current leader on the history, background and evolution of the Park since the idea was first proposed in 1991, as well as a discussion about the mission of the two governing bodies as stated in the 1992 Articles of Incorporation and By-laws of the Corporation and the 1993 Acts of the Virginia General Assembly which created the Authority. Following, the Boards decided to engage a consultant with experience in helping research and technology parks as well as higher education institutions in the planning, development and operations of such endeavors. In February, the firm of Eva Klein & Associates from Great Falls, VA was engaged to undertake a strategic assessment and recommendations to help guide the Boards. That study was completed and presented in April, under the guidance of a fourteen member Transition and Strategic Planning Committee.

The study highlighted how communities, higher education institutions and projects like the Research Park are becoming more strategically-focused on the creation of "innovation districts" and the components needed to successfully grow and attract more knowledge-based jobs and businesses. Recommendations on how VCU and the Research Park can become more integral contributors to the evolving synergies which are underway in the Greater Richmond region were presented as conclusions to the study. The reaction to the recommendations was mixed and while there was general consensus that the goals and outcomes would be desirable for the region as well as both VCU and the Park, the details and implications will require considerably more evaluation. Following discussion at Board meetings in June, it was determined that a Transition Oversight Committee should be formed to develop a proposed vision and mission statement for the Park, a position description for the next leader and recommendations on resources, organization and governance necessary to implement the vision. These are to be presented by the end of the first quarter along with a timetable and recommended process for recruitment of a successor.

Other FY 2013 Highlights

The following highlight some other accomplishments and items of interest during the past fiscal year, including:


- With the proceeds received from the sale of Biotech 5, an additional \$900,000 was applied to the outstanding balance on the line of credit, reducing the credit balance to \$955,254 as of June 30, 2013;

- The Authority's second-year appropriation of \$250,000 from the Commonwealth of Virginia was not changed during the 2013 session of the General Assembly, thereby ensuring that the Authority will receive the full balance of the FY 2014 support from the state;
- The Authority served as the conduit issuer for \$20 million in tax-exempt bonds for ITxM, a non-profit corporation headquartered in Pittsburgh, PA who acquired Virginia Blood Services (VBS) in 2012, the proceeds of which were used to defease the bonds on the VBS facilities in Henrico County previously financed by the Authority in 2006, and to finance the acquisition;
- The \$4 million invested in the CommonFund at the beginning of the fiscal year, as recommended by the Finance & Audit Committee and approved by the Boards in 2012, reflected a valuation of both the Investment and the Reserve Accounts totaling \$4,557,363 as of June 30, 2013, the end of the fiscal year; and
- The Authority completed Fiscal Year 2013 with operational cash balances totaling \$3,347,414.

In Conclusion

During the past year, the Park continued to build and reinforce the sense of scientific community through programs, communications, events and sponsorships. This common bond of the life sciences which links all of the tenant organizations and entities is what makes the Virginia Bio-Technology Research Park a unique environment which is attractive to companies when determining where to locate. As the governing Boards chart the Park's future for the next two decades and beyond, the foundation is solid and the opportunities to further build on the Park's successes are many. This will be the last full fiscal year report that I will make as President and CEO and I leave in December knowing that the future for the Park, Greater Richmond and the Commonwealth in the life sciences is indeed bright.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert T. Skunda", with a long horizontal flourish extending to the right.

Robert T. Skunda
President, CEO and Executive Director

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY

(As of June 30, 2013)

Michael Rao, Chair
Benjamin J. Lambert III, Vice Chair
Samuel B. Hunter, Secretary
Ronald D. Wright, Treasurer
Robert T. Skunda, Executive Director

Jim Cheng
Mary C. Doswell
Dwight C. Jones
Craig R. Smith
Zobair M. Younossi
Aiguo Wu

VIRGINIA BIOTECHONLOGY RESEARCH PARK CORPORATION

(As of June 30, 2013)

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

Jim Cheng	Donna Owens Cox
Ed A. Grier	Cecil R. Harris, Jr.
Douglas E. Harvey	Dwight C. Jones
Francis L. Macrina	Carlton E. Miller
Brandon J. Price	James J. L. Stegmaier
James A. Strickland	John A. Vithoukias
William H. Weirich	William S. White
Patricia M. Woolsey	

Financial Section

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Our discussion and analysis of the Virginia Biotechnology Research Partnership Authority's (Authority) financial performance provides an over view of the Authority's financial activities for the fiscal year ended June 30, 2013. 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, 1993 Virginia Acts of Assembly, as amended by Chapter 731, 2000 Acts of Assembly and Chapter 788, 2005 Acts of Assembly. 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, education and charitable purposes. The results of the operations of the Corporation are presented in a blended format in the fiscal statements of the Authority. The Corporation had no revenues or expenses for the fiscal year ending June 30, 2013.

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 (VCU) 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, appropriations from the Commonwealth, voluntary assessments from property owners located in the Research Park and contract support payments from VCU have funded both the operations and the acquisition and construction of capital assets. The Research Park, as of June 30, 2013, was occupied by over 65 private and non-profit companies, state laboratories and offices, and research institutes/administrative functions of VCU and the VCU Health System,

filling nearly 1,100,000 square feet of laboratory and office space in seven buildings and employing approximately 2,500 researchers, scientists, engineers and support personnel.

During the past fiscal year, the Phase I expansion of Biotech 8 was completed and Phase II expansion was initiated. The original Biotech 8 multi-tenant building is located at 737 North 5th Street on the location of the former Biotech 4 building. Biotech 8 was developed by a limited liability corporation (Biotech 8 LLC) of which the Authority is a member. The major tenant in Biotech 8, Health Diagnostic Laboratory, Inc. has experienced exceptional growth, since the company was founded in the Park in 2009. They occupy approximately 38,200 square feet of leasable space in the original Biotech 8 building and in April, 2012 construction was started on a new 106,000 square foot, six-story laboratory and office building, which is referred to as the "Phase I expansion". Phase I involved the acquisition and demolition of the Biotech 3 building acquired from the VCU Real Estate Foundation and is a \$28 million project which includes not only the new laboratory/office building, but a 185 car expansion to the parking deck in the rear of Biotech 8. Phase I was completed and HDL began to move into the new facility in February, 2013, bringing their total occupancy too approximately 144,000 square feet of space and employment to approximately 750 people as of June 30, 2013.

The second phase of the planned expansion of Biotech 8 was launched simultaneously with the Authority's sale of Biotech 5 in April of this year, to Biotech 8 LLC and subsequent demolition. The Phase II expansion involves a 90,000 square foot, architectural "mirror image" of the Phase I expansion and will complete the frontage along the north side of E. Jackson Street between North Fifth Street and Navy Hill Drive. All six floors of the \$24 million expanded laboratory and office space will be connected and will bring HDL's total occupancy to approximately 234,000 square feet of space and allow the company to add 300 more employees, bringing their total employment to 1,000. By June 30, the end of the fiscal year reporting period, all of the subsurface work was complete, the columns were essentially in place up to the second floor of the new structure and the first floor concrete slab was finished in accordance with the project schedule which calls for Phase II to be complete in April 2014.

When fully developed, the Research Park will contain between 1.75-2.0 million square feet of research, laboratory and office space in 10-12 buildings and employ between 3,000-3,500 people working in fields that include drug development, medical diagnostics and devices, biomedical engineering, environmental biosciences, forensics and laboratory services. Together with the VCU Medical Center next door, this is one of the largest concentrations of life sciences capabilities ranging from basic research and discovery to the delivery of health care services, located anywhere on the east coast of the United States.

Authority Highlights

- Sale of Biotech 5 to the Biotech 8 LLC in April, to make way for the Phase II expansion of Biotech 8 and resulting in \$2,350,000 in cash to the Authority;
- Opened a \$4 million investment and reserve account with the CommonFund Asset Management Company on June 30, 2012, which was valued at \$4,557,363 at the end of the current fiscal year;
- Principal on the line of credit with SunTrust Bank paid down \$900,000 with proceeds from the sale of Biotech 5 in April;
- Received \$183,845 in distributions from Biotech 8 LLC and BioLing during the fiscal year representing the Authority's ownership percentage in the Biotech 8 project;
- Received a \$250,000 appropriation from the Commonwealth representing the first operating support for the Research Park from the state since the 1997-98 Biennium; and
- Announced the retirement of the President and CEO effective December 31, 2013 following 16 years serving in that capacity.

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 Position, Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the Authority including information about the type and amount of resources and obligations at June 30, 2013. The Statement of Revenues, Expenses, and Changes in Net Position present the results of the Authority's operating and non-operating activities and provide information as to changes to the net position. The Statement of Cash Flows presents changes in cash and cash equivalents, as a result of operational, non-operational, and financing activities.

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 Position

The Statement of Net Position 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 position is 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 position at June 30, 2013 and 2012 are as follows:

Statement of Net Position, as of June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Value of Change</u>	<u>Percentage Of Change</u>
Assets:				
Current and other assets	\$43,905,044	\$42,816,668	\$ 1,088,376	3%
Capital assets, net	<u>3,510,696</u>	<u>5,444,614</u>	<u>(1,933,918)</u>	(36)%
Total assets	<u>47,415,740</u>	<u>48,261,282</u>	<u>(845,542)</u>	(2)%
Deferred outflows of resources:				
Deferred amount on refunding	<u>2,189,213</u>	<u>2,439,409</u>	<u>(250,196)</u>	(10)%
Liabilities:				
Current and other liabilities	4,698,218	4,003,389	694,829	(17)%
Long-term liabilities	<u>34,390,268</u>	<u>38,299,342</u>	<u>(3,909,074)</u>	(10)%
Total liabilities	<u>39,088,486</u>	<u>42,302,731</u>	<u>(3,214,245)</u>	(8)%
Net position:				
Net investment in capital assets	2,555,442	3,591,177	(1,035,735)	(29)%
Unrestricted	<u>7,961,025</u>	<u>4,806,783</u>	<u>3,154,242</u>	66%
Total net position	<u>\$10,516,467</u>	<u>\$ 8,397,960</u>	<u>\$ 2,118,507</u>	25%

The Authority's total assets decreased two percent due mainly to the sale of Biotech Five. Total liabilities decreased eight percent from schedule payments made towards the outstanding Bond, additional principle payments made on the line of credit, and implementation of GASB 65. The total assets and deferred outflows of resources of the Authority exceeded its liabilities by \$10.5 million.

Statement of Revenues, Expenses, and Changes in Net Position

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Change in Net Position. 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 position for the years ended June 30, 2013 and 2012 are as follows:

Statement of Revenues, Expenses, and Changes in Net Position
for the years ended June 30, 2013 and 2012

	2013	2012 (as restated)	Value of Change	Percentage Of Change
Operating revenues:				
Rental income	\$ 562,093	1,421,479	\$ (859,386)	(60%)
Parking income	331,070	317,985	13,085	4%
Development fee	24,850	5,000	19,850	397%
Assessment fee	328,669	325,011	3,658	1%
Interest income	-	4,675	(4,675)	(100%)
Other income	<u>13,151</u>	<u>25,784</u>	<u>(12,633)</u>	<u>(49%)</u>
Total operating revenues	<u>1,259,833</u>	<u>2,099,934</u>	<u>(840,101)</u>	<u>(40%)</u>
Operating expenses:				
Salaries and benefits	697,253	756,798	(59,545)	(8%)
Marketing and promotion	65,211	57,947	7,264	13%
Occupancy costs	92,329	423,073	(330,744)	(78%)
Administrative	460,318	241,560	218,758	91%
Depreciation expense	95,179	252,397	(157,218)	(62%)
Bad debt expense	<u>250</u>	<u>-</u>	<u>250</u>	<u>0%</u>
Total operating expenses	<u>1,410,540</u>	<u>1,731,775</u>	<u>(321,235)</u>	<u>(19%)</u>
Operating income	(150,707)	368,159	(518,866)	(141%)
Non-operating revenues and expenses	1,713,589	(4,848,713)	6,562,302	(135%)
Transfers	<u>555,625</u>	<u>-</u>	<u>555,625</u>	<u>0%</u>
Change in net position	2,118,507	(4,480,554)	6,599,061	(147%)
Net position - beginning of year	<u>8,397,960</u>	<u>12,878,514</u>	<u>(4,480,554)</u>	<u>(35%)</u>
Net position - end of year	<u>\$10,516,467</u>	<u>\$ 8,397,960</u>	<u>\$ 2,118,507</u>	<u>25%</u>

Operating revenues decreased forty percent and operating expenses decreased nineteen percent from the previous fiscal year due to the sale of Biotech One, Biotech Five, and Biotech Center.

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities	\$ (61,884)	\$ 589,242
Cash flows from non-capital financing activities	433,845	(3,590,506)
Cash flows from capital and related financing activities	<u>1,610,567</u>	<u>2,230,322</u>
Net increase in cash and cash equivalents	1,982,528	(770,942)
Cash and cash equivalents:		
Beginning of year	<u>1,364,886</u>	<u>2,135,828</u>
End of year	<u>\$ 3,347,414</u>	<u>\$ 1,364,886</u>

The Authority's available cash and cash equivalents increased from \$1.36 million at the end of 2012 to \$3.35 million at the end of 2013.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of June 30, 2013 amounted to \$3.5 million (net of accumulated depreciation). This investment in capital assets primarily includes land and equipment.

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 ^(B)	56	24,392	10,469	1995
Biotech One ^(B)	274	103,683	103,683	1996
Biotech Two ^(A)	192	133,700	133,700	1998
Biotech Five ^(E)				
Biotech Six ^(A)	246	191,000	191,000	2003
Biotech Seven ^(C)	315	80,000	80,000	2002
Biotech Eight ^(D)	770	76,300	76,300	2007
Biotech Eight Expansion ^(F)		106,000	106,000	2013
Biotech Nine ^(C)	<u>585</u>	<u>450,000</u>	<u>450,000</u>	2007
Total	<u>2,438</u>	<u>1,165,075</u>	<u>1,151,152</u>	

^(A) Property is owned by Virginia Biotechnology Research Partnership Authority

^(B) Property is owned by Virginia Commonwealth University

^(C) Property is owned by Building Occupant

^(D) Property is owned by Biotech Eight, LLC

^(E) Property demolished April 2013 to make room for Biotech 8 expansion

^(F) Occupant data contained in Biotech 8 totals

The Biotech Center has 11,621 leasable square feet and owing to a vacancy in one lab, was 90 percent occupied, Biotech One has 103,683 leasable square feet and was 100 percent occupied. Biotech Eight has a total of 76,300 leasable square feet and was 100 percent occupied at June 30, 2013. Biotech 5 was demolished during FY 2013 for the expansion of Biotech 8. All other Biotech buildings were 100 percent occupied.

Long-Term Debt

Bonds

At June 30, 2013, the Authority had \$31.6 million in long-term bond debt, excluding current maturities.

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, which were paid in full fiscal year 2012. The 2009 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, 2013 was \$31.6 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. The Bonds were defeased during fiscal year 2013.

During 2013, the Authority served as the conduit for issuing \$20 million variable rate revenue bonds to the Institute for Transfusion Medicine.

Other Debt

During this fiscal year the Park's \$3,000,000 revolving line of credit at Wells Fargo was transferred to a \$2,000,000 revolving line of credit at Suntrust. At June 30, 2013 the line of credit had a balance of \$ 955,254.

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, please 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 POSITION
As of June 30, 2013

	ASSETS	Component Unit	
		VBRPA	VBDC
Current assets:			
Cash and cash equivalents (Note 1 & 3)		\$ 529,534	\$ 6,669
Cash with Local Government Investment Pool (Note 3)		2,817,880	-
Accounts receivable, net of allowance for doubtful accounts of \$-0-		12,148	-
Prepaid expenses		3,126	-
Net investment in lease receivable - current portion (Note 5)		3,270,000	-
BioTech Eight, LLC HLA Lab Receivable - current portion (Note 6)		169,810	-
Total current assets		<u>6,802,498</u>	<u>6,669</u>
Non-current assets, net of depreciation:			
Net investment in lease receivable (Note 5)		31,635,000	-
Investment in Biotech 8, LLC (Note 13)		206,871	-
Investment in Bioling, LLC (Note 13)		6,179	-
Investment in other partnerships (Note 13)		555,625	-
Commonfund Investments (Note 3)		4,557,363	-
Biotech Eight, LLC HLA Lab Receivable (Note 6)		141,508	-
Non-depreciable capital assets (Note 4)		3,369,446	-
Depreciable capital assets, net of accumulated depreciation (Note 1 & 4)		141,250	-
Total non-current assets		<u>40,613,242</u>	<u>-</u>
Total assets		<u>47,415,740</u>	<u>6,669</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding		<u>2,189,213</u>	<u>-</u>
LIABILITIES			
Current liabilities:			
Accounts payable		97,717	-
Customer deposit		12,707	-
Unearned revenue		11,624	-
Long-term debt - current portion (Note 8)		4,576,170	-
Total current liabilities		<u>4,698,218</u>	<u>-</u>
Non-current liabilities:			
Long-term debt (Note 7)		34,354,599	-
Compensated absences (Note 1 & 8)		35,669	-
Total non-current liabilities		<u>34,390,268</u>	<u>-</u>
Total liabilities		<u>39,088,486</u>	<u>-</u>
NET POSITION			
Net investment in capital assets		2,555,442	-
Unrestricted		7,961,025	6,669
Total net position		<u>\$ 10,516,467</u>	<u>\$ 6,669</u>

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
As of June 30, 2013

	VBRPA	Component Unit VBDC
Operating revenues:		
Rental income	\$ 562,093	\$ -
Parking income	331,070	-
Development Fee	24,850	-
Assessment Fee	328,669	-
Other income	13,151	-
Total operating revenues	<u>1,259,833</u>	<u>-</u>
Operating expenses:		
Salaries and benefits	697,253	-
Marketing and promotion	65,211	-
Occupancy costs	92,329	-
Administrative	460,318	258
Depreciation expense	95,179	-
Bad debt expense	250	-
Total operating expenses	<u>1,410,540</u>	<u>258</u>
Income from operations	<u>(150,707)</u>	<u>(258)</u>
Non-operating revenue/(expenses):		
Interest revenue	1,563,475	-
Interest expense	(1,502,948)	-
State Support	250,000	-
Unrealized gain on Commonfund Investments	557,363	-
Gain from Biotech Eight LLC	284,728	-
Gain from Bioling LLC	13,851	-
Gain on Sale of Biotech Five	511,261	-
HLA Loan Payments	43,285	-
In-Kind Expense	(7,426)	-
Total non-operating activity	<u>1,713,589</u>	<u>-</u>
Income before transfers	1,562,882	
Transfer of investments	<u>555,625</u>	<u>(555,625)</u>
Change in net position	2,118,507	(555,883)
Net position - beginning of year, as restated	<u>8,397,960</u>	<u>562,552</u>
Net position - end of year	<u>\$ 10,516,467</u>	<u>\$ 6,669</u>

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
STATEMENT OF CASH FLOWS
As of June 30, 2013

	VBRPA	Component Unit VBDC
Cash flows from operating activities:		
Cash received from rent	\$ 538,446	\$ -
Cash received from parking	312,789	-
Cash received from assessment program	329,888	-
Cash received from development fees	24,850	-
Cash received from miscellaneous income	13,151	-
Payments for personnel expenses	(702,897)	-
Payments for marketing expenses	(64,731)	-
Payments for occupancy expenses	(101,932)	-
Payments for administrative expenses	(411,448)	(258)
Net cash provided (used) by operating activities	(61,884)	(258)
Cash flows from non-capital financing activities:		
Cash received from the State	250,000	-
Distributions received from Biotech 8, LLC	176,165	-
Investment in Bioling, LLC	7,680	-
Net cash provided by noncapital financing activities	433,845	-
Cash flows from capital and related financing activities:		
HLA payments received	198,944	-
Principal paid	(898,183)	-
Interest paid	(40,194)	-
Proceeds received on sale of fixed assets	2,350,000	-
Net cash provided by capital and related financing activities	1,610,567	-
Net increase (decrease) in cash	1,982,528	(258)
Cash and cash equivalents - 6/30/12	1,364,886	6,927
Cash and cash equivalents - 6/30/13	\$ 3,347,414	\$ 6,669

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY
 STATEMENT OF CASH FLOWS
 As of June 30, 2013

	VBRPA	Component Unit VBDC
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (150,707)	(258)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	95,179	-
Increase in accounts payable	24,949	-
Decrease in operating accounts receivable	116,416	-
Increase in operating benefits payable	(25,104)	-
Increase in customer deposits	(188)	-
Decrease in unearned income	(149,261)	-
Decrease in prepaid expenses	14,798	-
Decrease in leave accrual	19,460	-
In-kind expense	(7,426)	-
Net cash provided (used) by operating activities	<u>\$ (61,884)</u>	<u>\$ (258)</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES

During 2013, the Authority sold land and buildings to Biotech Eight, LLC. The buildings had a book value of \$1,541,417, net of accumulated depreciation, and the land had a book value of \$297,322 at the date of the sale. The Authority received cash in the amount of \$2,350,000. As a result of the sale, the Authority recognized a gain

Under the Biotech Six lease agreement, the Department of General Services makes lease payments directly to the Commonwealth of Virginia, which are applied to the Authority's outstanding lease revenue bonds. During fiscal year 2013, payments under this agreement resulted in a \$1,835,000 reduction in the Authority's lease receivable and a corresponding reduction in its outstanding debt. The Authority also recorded non-cash capital lease interest income and bond interest expense of \$1,563,475 under this agreement for the year.

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

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2013

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 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.

The accompanying annual financial report includes the financial activities of the Authority, and its component units, which are the Virginia Biotechnology Research Park Corporation (the Corporation) and the Virginia Biosciences Development Center (the Center). Financial information for the Authority and these component units is accounted for in the accompanying financial statements in accordance with principles defining the governmental reporting entity adopted by the Government Accounting Standards Board.

Blended Component Unit

The Virginia Biotechnology Research Park Corporation (the Corporation) is an Internal Revenue Code Section 501(c) (3) corporation and is organized and operated exclusively for scientific, educational, and charitable purposes. The Authority and the Corporation have a financial and operational relationship which requires that the Corporation's financial statements be blended into the Authority's financial statements.

The Corporation had no assets at June 30, 2013 and there were no revenues or expenses related to the Corporation for the year then ended.

Discretely Presented Component Unit

The Virginia Biosciences Development Center (the Center) was established by the Authority in fiscal year 2000. 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. The Authority has financially supported the Center in the past. During fiscal year 2013, the Center transferred all of its equity interests in partnerships to the Authority. There were no expenses incurred by the Authority related to the operations of the Center during fiscal year 2013.

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) 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 Position. 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 Position. In accordance with paragraph 146 of GASB Statement No. 34, bond premiums and discounts 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. 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, 2013. 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.

Unamortized Deferred Amount on Refunding

The deferred amount on refunding, resulting from the advance refunding of a portion of the Series 2006 Revenue Bonds, is being amortized on a straight-line basis over the life of the Series 2009 Bond. The amortization of \$250,197 is included in interest expense for fiscal year 2013.

2. NEW GASB STANDARDS

In the fiscal year ending June 30, 2013, the Authority adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34 (GASB 61)*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (GASB 63)*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities (GASB 65)*.

GASB 61 modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary reporting entity (that is, blending) under certain circumstances. As a result of implementing this Statement, the Authority has reevaluated its relationship with the Virginia Biosciences Development Center, Inc. and concluded that it should be discretely presented as a component unit of the Authority.

The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position (net assets/balance sheet). Amounts that are required to be reported as deferred outflows should be reported in a statement of net position in a separate section following assets. Similarly, amounts required to be reported as deferred inflows of resources should be reported in a separated section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets

or equity. GASB 63 was implemented retroactively. The adoption of this statement resulted in a change in the presentation of the Statement of Net Assets to the Statement of Net Position.

The objective of GASB 65 is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). GASB 65 was implemented retroactively. As a result of implementing GASB Statement No. 65, the Authority has restated the beginning net position, effectively decreasing net position as of July 1, 2012, by \$559,839. The decrease results from no longer deferring and amortizing bond issuance costs. Further, the Authority has restated its long-term liabilities to reflect that a component of those liabilities as of June 30, 2012 – deferred charge on refunding – is now reported as a deferred outflow of resources on the Statement of Net Position. The effect of this change, as of July 1, 2013, is an increase of \$2,439,409 in long-term liabilities and a corresponding increase in deferred outflows of resources.

3. DEPOSITS AND INVESTMENTS

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. 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.

Investments

Code of Virginia section 2.2-4500 et.seq. authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof; obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, and the African Development Bank; “prime quality” commercial paper and certain corporate notes; banker’s acceptances repurchase agreements; and the State Treasurer’s Local Government Investment Pool (LGIP).

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5 percent of the Authority's investments are in Commonfund Institutional Multi-Strategy Equity Fund, LLC and Commonfund Institutional Multi-Strategy Bond Fund, LLC. These investments are 62% and 38%, respectively, of the Authority's total investments.

Foreign Currency Risk

The Authority's exposure to foreign currency risk derives from its holdings of foreign securities and the use of derivatives to hedge the related foreign currency exposure back to the U.S. dollar. These foreign securities are part of the holdings included in the Commonfund Institutional Multi-Strategy Equity Fund, LLC and Commonfund Institutional Multi-Strategy Bond Fund, LLC and represent 12% and 5% of the fund's holdings, respectively. The Authority does not have a formal policy to limit foreign currency risk.

4. PROPERTY, PLANT, AND EQUIPMENT

A summary of changes in the Authority's Property, Plant, and Equipment for the year ended June 30, 2013, is presented as follows:

	Beginning Balance	Acquired	Deleted	Ending Balance
Land	\$ 3,666,768	\$ -	\$ 297,322	\$ 3,369,446
Buildings	2,360,614	-	2,360,614	-
Equipment	291,077	-	8,577	282,500
Leasehold improvements	<u>10,850</u>	<u>-</u>	<u>10,850</u>	<u>-</u>
Total at historical cost	<u>6,329,309</u>	<u>-</u>	<u>2,677,363</u>	<u>3,651,946</u>
Less accumulated depreciation for:				
Buildings	780,518	38,679	819,197	-
Equipment	93,327	56,500	8,577	141,250
Leasehold improvements	<u>10,850</u>	<u>-</u>	<u>10,850</u>	<u>-</u>
Total accumulated depreciation	<u>884,695</u>	<u>95,179</u>	<u>838,624</u>	<u>141,250</u>
Capital assets, net	<u>\$ 5,444,614</u>	<u>\$ (95,179)</u>	<u>\$ 1,838,739</u>	<u>\$ 3,510,696</u>

The decrease in the Authority's Asset accounts is due to the sale of Biotech Five.

6. 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, 2013, the balance was \$311,318 and 22 installments were still remaining.

7. 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 in Series 2006 Variable Rate Revenue Bonds to finance the Virginia Blood Services (VBS) 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. In June 2013, the Authority issued \$5,000,000 in Series 2013B Variable Rate Revenue Bonds, primarily to refund the remaining Series 2006 bonds. The proceeds from the Series 2013B Bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2006 bonds. As a result, the Series 2006 bonds are considered to be defeased at June 30, 2013. The Series 2013B bonds are secured by a bond trust indenture and are payable solely from 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.

On June 1, 2013, the Authority issued \$15,000,000 in Series 2013A Variable Rate Revenue Bonds to assist the Institute for Transfusion Medicine (ITxM) in connection with the transfer to ITxM of the sole corporate membership interest in VBS. VBS provides blood supply services, including collection, storage, and distribution of blood to hospitals and other health care providers in the Commonwealth of Virginia, and conducts related research. The bonds are secured by a bond trust indenture and are payable solely

from 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.

8. 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 and line of credit at June 30, 2013:

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.	\$ 34,905,000
LIBOR market index rate plus 2.0 percent, renewable, interest only, Suntrust Line of Credit of \$1.5 million taken on September 7, 2006. Credit line renewable annually.	<u>955,254</u>
Total long-term debt	<u>\$ 35,860,254</u>

A summary of changes in the Authority's non-current liabilities for the year ended June 30, 2013 is presented as follows (as a result of implementing GASB Statement No. 65, the beginning net position of the Authority has been restated as of July 1, 2013. See Note 2 New GASB Standards for more information):

	Beginning Balance (as previously stated)	Restatement and Reclassification	Beginning Balance (as restated)	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable:							
Commonwealth of Virginia lease revenue bonds	\$ 36,740,000	\$ -	\$36,740,000	\$ -	\$ 1,835,000	\$34,905,000	\$3,270,000
Unamortized bond premium	3,421,431	-	3,421,431	-	350,916	3,070,515	350,916
Less:							
Deferral on refunding	2,439,409	(2,439,409)	-	-	-	-	-
Underwriters Discount	<u>559,836</u>	<u>(559,836)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net bonds payable	37,162,186	2,999,245	40,161,431	-	2,185,916	37,975,515	3,620,916
Notes payable:							
Line of Credit	<u>1,853,437</u>	<u>-</u>	<u>1,853,437</u>	<u>-</u>	<u>898,183</u>	<u>955,254</u>	<u>955,254</u>
Total long-term debt	39,015,623	2,999,245	42,014,868	-	3,084,099	38,930,769	4,576,170
Compensated absences	<u>16,209</u>	<u>-</u>	<u>16,209</u>	<u>19,460</u>	<u>-</u>	<u>35,669</u>	<u>-</u>
Total long-term liabilities	<u>\$ 39,031,832</u>	<u>\$ 2,999,245</u>	<u>\$42,031,077</u>	<u>\$ 19,460</u>	<u>\$ 3,084,099</u>	<u>\$38,966,438</u>	<u>\$4,576,170</u>

Long-term debt matures as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 4,225,254	\$ 1,486,900	\$ 5,712,154
2015	3,385,000	1,370,150	4,755,150
2016	3,525,000	1,231,950	4,756,950
2017	3,665,000	1,088,150	4,753,150
2018	3,815,000	938,550	4,753,550
2019-2022	17,245,000	1,778,625	19,023,625
Total	\$ 35,860,254	\$ 7,894,325	\$ 43,754,579

9. DEFINED BENEFIT PENSION PLAN

The Authority contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the VRS.

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/pdf/Publications/2012-annual-report.pdf> or by writing to the Chief Financial Officer at Post Office Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their compensation toward retirement. All or part of the 5% member contribution may be assumed by the Authority. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended June 30, 2013 was 3.89% of annual covered payroll.

Annual Pension Cost

For fiscal year ended June 30, 2013, the Authority's annual pension cost of \$16,296 was equal to the Authority's required and actual contributions.

Three-Year Trend Information for Virginia Biotechnology Research Partnership Authority

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC	Net Pension Obligation
30-Jun-11	\$ 77,065	100%	\$ -
30-Jun-12	\$ 59,301	100%	\$ -
30-Jun-13	\$ 16,296	100%	\$ -

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) 7.00% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.75% to 5.60% per year for general governmental employees, 3.75% to 6.2% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c), a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

Funding Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 109.08% funded. The actuarial accrued liability for benefits was \$1,358,633 and the actuarial value of assets was \$1,482,058, resulting in an unfunded actuarial accrued liability (UAAL) of \$(123,425). The covered payroll (annual payroll of active employees covered by the plan) was \$504,564, and ratio of UAAL to the covered payroll was (24.46) %.

10. OTHER POST-EMPLOYMENT BENEFITS – LIFE INSURANCE PROGRAM

The Authority 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. The Authority contributed 1.19% of eligible covered payroll in 2013 to this program for a total of \$5,161.

11. OTHER POST-EMPLOYMENT BENEFITS – HEALTH INSURANCE CREDIT PROGRAM

The Authority participates in the VRS Retiree Health Insurance Credit Program which is an agent, multiple-employer plan. It provides eligible retirees a tax-free reimbursement for health insurance premiums for single coverage under qualifying health plans, including coverage under a spouse's plan, not to exceed the amount of the monthly premium or the maximum credit, whichever is less. Premiums for health plans covering specific conditions are ineligible for reimbursement. The amount is financed based on employer contribution rates determined by the VRS's actuary. The Authority contributed 0.15% of eligible covered payroll in 2013 to this program for a total of \$655.

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. INVESTMENT IN PARTNERSHIPS

Biotech Eight, LLC is a for-profit development entity in which the Virginia Biotechnology Research Park has an 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. In 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. However, accounting standards require the Authority to recognize its proportionate share of the profit and losses in the LLC in line with allocation ratios used for preferred return distributions. The Authority will receive preferred returns of any distributions of excess cash and upon the sale or refinancing of the property from the LLC.

During fiscal year 2013, the Operating Agreement was amended to allow for the admission of another member. As a result, the Authority's equity interest was reduced from approximately 15.6 percent to approximately 11 percent. The net investment in Biotech Eight, LLC was \$206,871 at June 30, 2013. The building was 100 percent occupied as of June 30, 2013, and total project costs were in excess of \$22 million.

During fiscal year 2012, Virginia Biotechnology Research Park committed to an 8% equity interest in Bioling LLC, a for-profit development entity. The Park is subject to potential cash calls in proportion to their Percentage Interests and will share in distributions of excess cash in accordance with its partnership percentage. The net investment in Bioling, LLC was \$6,179 at June 30, 2013.

In June of 2013, the Virginia Biosciences Development Center, Inc., a component unit of the Authority, transferred its equity interests in partnerships to the Authority. The transfer was made at book value (cost) for \$555,625.

Supplementary Information

SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2013

The schedule of funding progress, presented below as Supplementary Information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Supplementary Information

Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (2)	Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	Funded Ratio (1)/(2)	Annual Covered Payroll (4)	UAAL as % of Payroll (2-1)/(4)
30-Jun-10	\$ 1,299,979	\$ 1,253,887	\$ -46,092	103.68%	\$ 703,422	-6.55%
30-Jun-11	\$ 1,405,228	\$ 1,305,495	\$ -99,733	107.64%	\$ 567,495	-17.57%
30-Jun-12	\$ 1,482,058	\$ 1,358,633	\$ -123,425	109.08%	\$ 504,564	-24.46%

Independent Auditor's Report



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 01, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component unit of the **Virginia Biotechnology Research Partnership Authority**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation

of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component unit of the Virginia Biotechnology Research Partnership Authority as of June 30, 2013, and the respective changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Virginia Biotechnology Research Partnership Authority's accompanying basic financial statements for the year ended June 30, 2013, reflect the provisions of the Governmental Accounting Standards Board's (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Authority chose to implement the requirements of GASB Statement No. 65 one year in advance of the required effective date. See Note 2 in the accompanying financial statements for an explanation of the standard and the impact of the Authority's implementation. Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Virginia Biotechnology Research Partnership Authority's basic financial statements. The schedule of funding progress for the defined benefit pension plan on page 39 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The schedule of funding progress for the defined benefit pension plan is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of funding progress for the defined benefit pension plan is fairly stated, in all material respects, in relation to the basic financial statement taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2013, 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. We anticipate releasing that report on or after November 15, 2013. 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 in considering the Authority's internal control over financial reporting and compliance.


AUDITOR OF PUBLIC ACCOUNTS

DBC/alh