

THE NEW EAST COAST CENTER FOR BIOSCIENCES



ANNUAL REPORT

THE NEW EAST COAST CENTER FOR BIOSCIENCES



Situated on 34 acres directly adjacent to the Virginia Commonwealth University Medical Center, the Virginia Bio-Technology Research Park is strategically headquartered in Richmond, Va., in the heart of the nation's East Coast pharmaceutical and biotechnology corridor, just 100 miles south of Washington, D.C. and its federal regulatory agencies.

Created as a partnership of Virginia Commonwealth University (VCU), the city of Richmond and the Commonwealth of Virginia, the Park has continued to develop a thriving life sciences community in downtown Richmond. The Park is now home to a unique mix of more than 50 biosciences companies, research institutes affiliated with the VCU Medical Center, major state and national medical laboratories and organizations involved with forensics, testing of biotoxins and management of the nation's organ transplantation process. The Park works hand-in-hand with VCU, other academic institutions, business, government and not-for-profit organizations to facilitate technology transfer and business development. Its business accelerator, the Virginia Biosciences Development Center, assists biosciences startups in the Park's incubator with everything from legal and financial services to business planning.

The eight-year-old Park is only one-third developed, yet already its tenants, housed in eight buildings, fill more than 575,000 square feet of space and employ more than 1,350 scientists, researchers, engineers and technicians in fields that

include drug development, medical diagnostics, biomedical engineering, forensics and environmental analysis.

As the only research park in Virginia dedicated to the advancement of the life sciences, the Park has enhanced its mission beyond development of life sciences companies in the city of Richmond to one that will "promote the advancement, nurture the environment and accommodate the functions of a thriving biosciences community in the Greater Richmond area." To that end, the Park established relationships in 2001 and 2002 to include satellite facilities in the neighboring counties of Chesterfield and Henrico, extending its reach beyond its original 34-acre downtown Richmond campus.

Understanding the importance of creating an environment conducive to life science companies at the state level, the Park also supports and has played an active role in the development of state initiatives such as the Governor's Advisory Board for the Virginia Biotechnology Initiative, which was extended for an additional 12 months to develop a statewide strategy to strengthen and expand the Commonwealth's biotechnology industry. In addition, the Park is involved with the Virginia Biotechnology Association's Government Affairs Committee, which was created to advocate and track legislative issues before the Virginia General Assembly and formulate public policies and initiatives based on how they will positively support the growth and development of the state's biotechnology industry.

GREATER RICHMOND, VIRGINIA



TO OUR STAKEHOLDERS, SUPPORTERS AND FRIENDS

2003 marked the most significant milestone in the Park's eight-year history with the occupancy of two new buildings, bringing over 500 additional employees to the Virginia Bio-Technology Research Park and completing over \$81 million in new construction. While the United Network for Organ Sharing started their move-in during the final days of 2002, the full complement of UNOS' workforce arrived in early January to the new \$18 million headquarters for the organization that manages the nation's organ transplant program. In May, 250 employees of the Virginia Division of Consolidated Laboratory Services began a staged move into their new \$63 million state-of-the-art laboratory facility. Biotech Six and Biotech Seven now formally anchor the western portions of the Park's footprint and are impressive architectural landmarks at this important gateway to Richmond's downtown.

The Park's updated strategic plan was completed in April after a seven-month process that involved over 100 community, business, university and Park leaders. Entitled "Richmond: The New East Coast Center for Biosciences," the plan focuses attention on the region's potential to become a nationally recognized center for the life sciences industry.

Finally, Phase Two of the Governor's Advisory Board for the Virginia Biotechnology Initiative completed its work complementing the region's strategic planning effort and providing specific recommendations to the Governor and the General Assembly for making all of Virginia a competitive and attractive location for the biosciences industry.

A handwritten signature in black ink, appearing to read "Eugene P. Trani".

Eugene P. Trani
Chairman
President, Virginia Commonwealth University

A handwritten signature in black ink, appearing to read "Robert T. Skunda".

Robert T. Skunda
President and Chief Executive Officer

ACCOMPLISHMENTS + MILESTONES

ACCOMPLISHMENTS

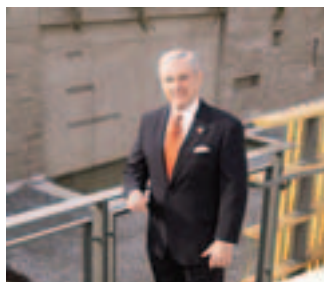
Biotech Development:

During the past calendar year, the Virginia Bio-Technology Research Park and its tenant companies have continued to develop facilities and amenities within the Park's footprint that have helped the Park gain national recognition within the industry. Included among the development milestones are:



- Completed construction of Biotech Six, the new \$63 million, 194,500 square-foot Virginia Division of Consolidated Laboratory Services (DCLS) facility, which was upgraded to a BSL-4 (Biosafety Level 4) "ready" facility, making it one of five laboratories in the United States equipped to safely handle the most dangerous biopathogens and chemicals;
- Hosted Governor Mark Warner and public health professionals from around the country at the dedication

ceremony of Biotech Six on June 9, 2003; and,



Mr. Walter Graham, Executive Director of UNOS, at the National Donor Memorial Garden.

- The United Network for Organ Sharing dedicated a \$1 million National Donor Memorial Garden honoring America's organ and tissue donors and their families.

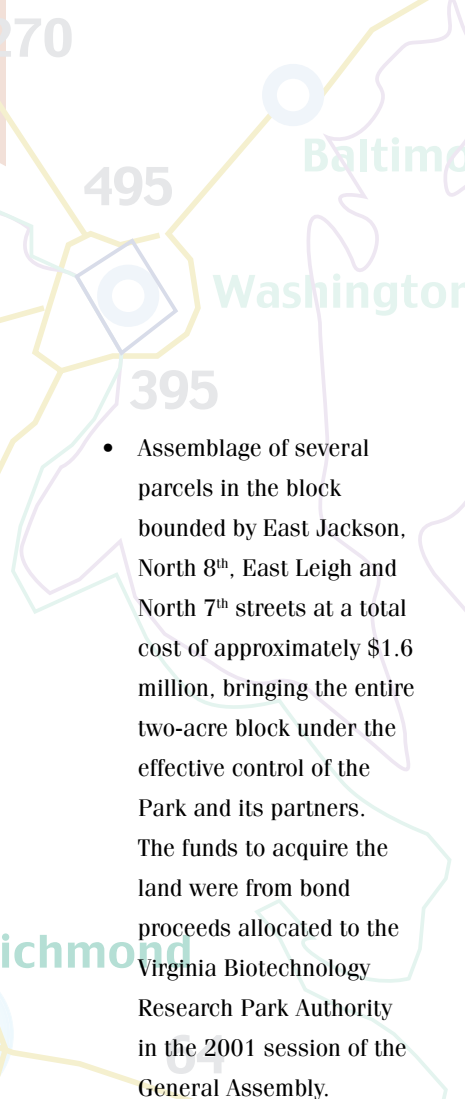
Strategic Initiatives: a number of strategic initiatives were undertaken during 2003 which will aid in positioning the Park, region and state to become more competitive in growing and attracting a biosciences industry, including:

- Completion of the Park's new five-year strategic plan, last revised in 1998, which articulates future milestones to fulfill the Park's vision of becoming nationally recognized as a preferred location for the biosciences industry by 2008;

- Implementation of a regional marketing strategy, supporting the recommendations outlined in the Park's new strategic plan, to position the region as a recognized center for biosciences and help Greater Richmond attract the life sciences industry; and,
- Development and launch of a new website for the Research Park which features an overview of the development, virtual tours of the facilities, a calendar of upcoming events, current research news for VCU and the Park, a list of employment opportunities at the Park, and online registration for monthly events.



Land Acquisition: Significant progress was made during the year to continue acquiring privately owned lands within the Park's master-planned boundaries, including:



left: A view of BIO 2003 held in Washington, D.C. right: David Lohr addresses the VaBIO 2003 audience in McLean, Virginia.

- Assemblage of several parcels in the block bounded by East Jackson, North 8th, East Leigh and North 7th streets at a total cost of approximately \$1.6 million, bringing the entire two-acre block under the effective control of the Park and its partners. The funds to acquire the land were from bond proceeds allocated to the Virginia Biotechnology Research Park Authority in the 2001 session of the General Assembly.

New Tenants and Facility

Highlights: During 2003, a number of new companies moved to and expanded in the Research Park. Highlights and information about each of the companies include:

- ASD Biosystems, Inc. - Develops point-of-incident sample collector devices and portable, semi-

automated workstations for processing and tracking environmental samples for biological threat agent analysis;

- The Bill Police, LLC - Assists businesses in managing their cell phone bills more cost effectively by simplifying the bill into one easy-to-read format; identifying and correcting billing errors with the carrier; suggesting more cost-effective alternatives and providing historical trend analysis;

- Resus, LLC - An outgrowth of the Virginia Commonwealth University Reanimation Engineering Shock Center (VCURES), the company provides medical knowledge, education and equipment with a focus on resuscitation;

- Science Applications International Corp. (SAIC) - Conducts structure-based drug design and development studies in collaboration with the National Cancer Institute to identify therapeutics that will inhibit ebola virus and botulinum toxins; and,

- Boehringer Ingelheim Chemicals, Inc. - Produces and supplies ingredients for the pharmaceutical business of its parent company, Boehringer Ingelheim GmbH, and recently expanded its R&D facility at the Park to a second suite, totaling more than 14,708 square feet.



left to right: Petric Capers and Nicky Colomb greet visitors at VaBIO 2003.

Virginia Biosciences Development Center:

Completing its third year of operations, the Park's in-house biosciences business accelerator and support center assisted a number of Park tenants with business planning, market assessment, licensing and joint-venture agreements, capital acquisitions, and a variety of other challenges. During the year, the VBDC:

- Co-hosted the Incubator Walking Tour during the 2003 National Business

Incubation Association (NBIA) Annual Conference held in Richmond. More than 400 industry professionals toured the Research Park's incubator during the event, which also featured an invited lecture from the VBDC's executive director;

- Jointly with VCU's School of Business, secured a \$50,000 grant from the Kauffman Center for Entrepreneurial Leadership to pilot a certificate program in life sciences entrepreneurship at VCU that will increase the number of qualified executives who can lead the development of bioscience companies in the region and state;

- Secured a \$30,000, year three, program-support grant from Virginia's Department of Business Assistance to complete the initial implementation of a business support services function in the Park's incubator;

- Was named as a finalist for the Greater Richmond Technology Council's Ernst & Young "Community Impact Award," for the second consecutive year;



DIRECTORS



Tenants attend a VBDC monthly seminar and networking luncheon.

AUTHORITY BOARD

Eugene P. Trani, Ph.D.
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President
Virginia Commonwealth University

Lawrence H. Framme, III, Esq.
Vice Chairman
Framme Law Firm, P.C.

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Secretary
Chairman and CEO
Owens & Minor, Inc.

Ronald D. Wright
Treasurer
President and CEO
Next Century Technologies, Inc.

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Retired Chairman
Dominion Resources, Inc.

Donna J. Edmonds, M.S., R.N.*
SVP, Sales & Marketing
Ischemia Technologies

Abhishek Jain, Esq.
CEO
Washington Technology Partners, Inc.

The Hon. Rudolph C. McCollum, Jr.
Mayor
City of Richmond

Gerald M. Rubin, Ph.D.**
Vice President and Director
Howard Hughes Medical Institute

The Hon. Michael J. Schewel
Secretary of Commerce and Trade
Commonwealth of Virginia

James E. Sheffield, Esq.**
Law Offices of James E. Sheffield

Executive Director: Robert T. Skunda
Asst. Secretary: Paul P. Jez
Asst. Treasurer: James M. MacMillan

* Served through June 30, 2003

** Appointed effective July 1, 2003

CORPORATION BOARD

Eugene P. Trani, Ph.D.
Chairman
President
Virginia Commonwealth University

Robert T. Skunda
President and CEO
Virginia Bio-Technology Research Park

Phyllis L. Cothran
Vice Chairman
Retired President and COO
Trigon Blue Cross/Blue Shield

G. Gilmer Minor, III
Secretary
Chairman and CEO
Owens & Minor, Inc.

Donna J. Edmonds, M.S., R.N.
*Treasurer***
SVP, Sales & Marketing
Ischemia Technologies

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LandAmerica Financial Group, Inc.

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Partner
Hunton & Williams

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Vice President, Marketing
Sycom Technologies

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AGI Corporate Finance Limited
Chairman and CEO
H&M Partners Limited

Virgil R. Hazelett
County Manager
Henrico County

Frank L. Hurley, Ph.D.
Chairman and Chief Scientific Officer
RRD International, Inc.

Calvin D. Jamison, Ed.D.
City Manager
City of Richmond

John R. Nelson**
President, Operations and Technology
Philip Morris USA

Lane B. Ramsey
County Administrator
Chesterfield County

Frank S. Royal, M.D.
Physician in private practice

The Hon. Michael J. Schewel
Secretary of Commerce and Trade
Commonwealth of Virginia

James E. Sheffield, Esq.*
Law Offices of James E. Sheffield

Asst. Secretary: Paul P. Jez
Asst. Treasurer: James M. MacMillan

- Successfully executed a \$70,550 grant from Virginia's Center for Innovative Technology, which led to the creation of two new technology companies that are now tenants in the VBDC Incubator Program;

- Served on the Virginia Small Business Initiative Steering Committee at the request of the Secretary of Commerce and Trade, which delivered a series of recommendations being reviewed by Governor Warner for enhancing Virginia's support of small business; and,

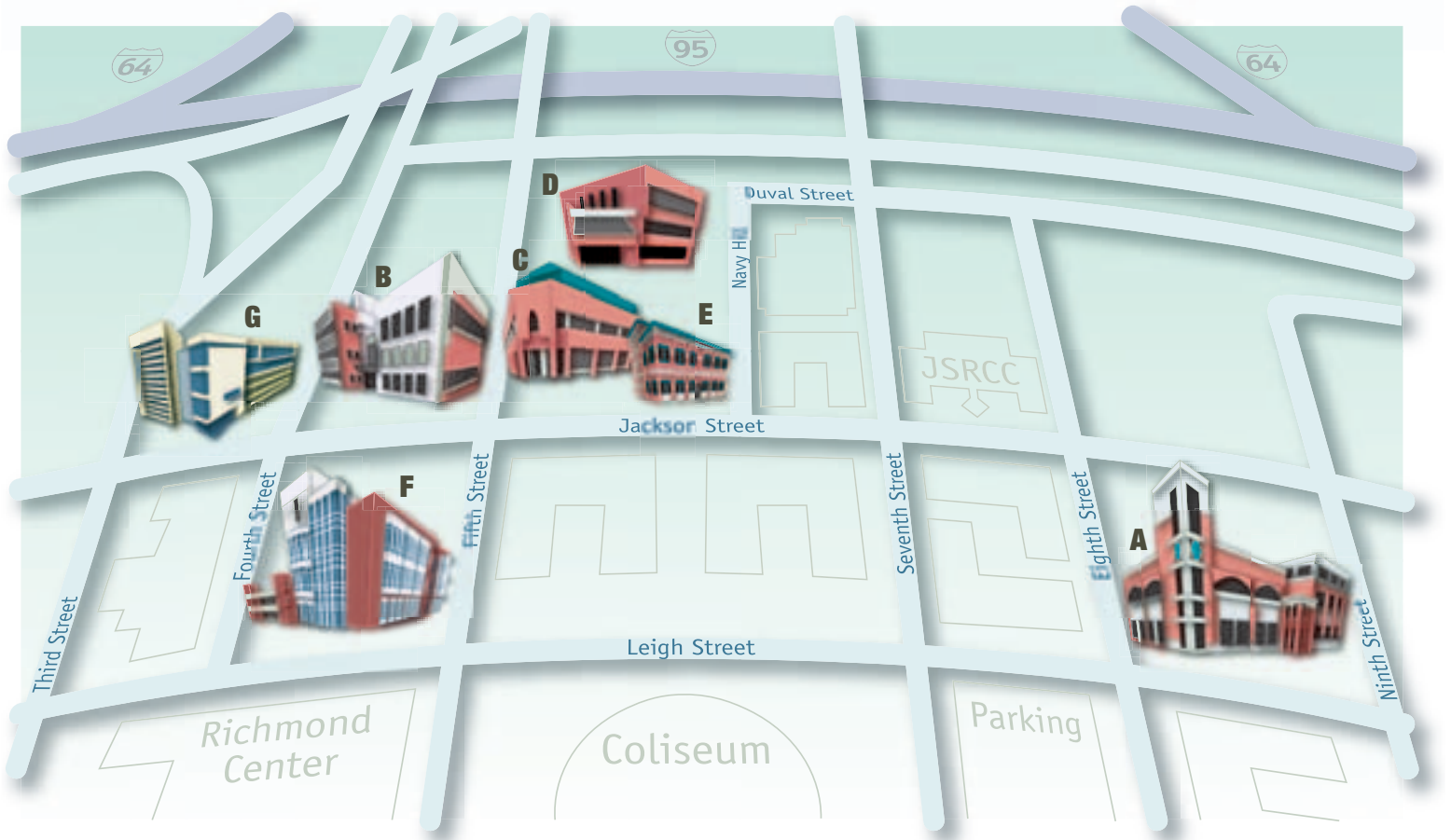
- Provided support services and one-on-one business consultation to 11 Park incubator tenant companies, including business plan critiques, referrals, help with negotiating business agreements, creation of pro forma financial projections, assistance in accessing capital and other general consultations.

Governance and Operations:

During the past year, two new members were appointed to the Authority Board of

Directors and two new members were added to the Park's Corporation Board. These members include:

- Gerald M. Rubin, Ph.D., vice president and director of the Janelia Farm Research Campus at Howard Hughes Medical Institute in Loudoun County, and James E. Sheffield, Esq., with the Law Offices of James E. Sheffield, were both appointed to the Authority Board by Governor Mark Warner for three-year terms; and,
- Donna J. Edmonds, senior vice president for sales and marketing at Ischemia Technologies, and John R. Nelson, president of operations and technology at Philip Morris USA, were both appointed to the Corporation Board for three-year terms. Ms. Edmonds also serves on the Board of Directors of the Virginia Biosciences Development Center and has served on the Research Park's Authority Board, having originally been appointed by former Governor James Gilmore.



THE VIRGINIA BIO-TECHNOLOGY RESEARCH PARK

A Biotech Center and Biotech One

2rw Consulting Engineers, Inc.
 Abtech Scientific, Inc.
 Allos Therapeutics, Inc.
 ASD Biosystems, Inc.
 BioCache Pharmaceuticals, Inc.
 BioTrack, LLC
 Boehringer Ingelheim Chemicals, Inc.
 Boehringer Ingelheim Pharmaceuticals, Inc.
 CellFor Corp.
 Ceres Biotechnology, LLC
 eduSoft, LLC
 Fulcrum Pharmaceuticals, LLC
 Hemydyne, Inc.
 ImmunoTox, Inc.
 ImmediateCare, LLC
 kSERO Corp., Inc.
 Kinnakeet Biotechnology, LLC
 Living MicroSystems, Inc.
 L-TECH
 J. Steven Lindsey
 Jeffery M. Gallagher, Esq., P.C.

Mid-Atlantic Twin Registry
 Molecules for Health, Inc.
 Myomed, Inc.
 NanoMatrix, LLC
 OrbitalMed, LLC
 PB Facilities, Inc.
 Poamax, LLC
 Respiratory Drug Delivery
 Resus, LLC
 Scentczar Corp.
 Science Applications International Corp.
 Science Info
 SiTech, LLC
 Solveritas, LLC
 Sound Technique Systems, LLC
 The Bill Police, LLC
 Tissue Technologies, LLC
 Virginia Biotechnology Association
 Virginia Biosciences Development Center
 Virginia Business Higher Education Council

VCU Institute for Structural Biology and Drug Discovery
 VCU Office of the Vice President for Research
 Virginia Institute for Psychiatric and Behavioral Genetics
 Virginia Department of Transportation
B Biotech Two
 Virginia Division of Forensic Science
 Virginia Office of the Chief Medical Examiner
 Virginia Institute of Forensic Science and Medicine

C Biotech Three
 VCUHS Patient Accounting
 VCUHS Purchasing and Accounts

D Biotech Four
 VCU Procurement and Payment Services

E Biotech Five
 Inflico Degremont, Inc.

F Biotech Six
 Virginia Division of Consolidated Laboratory Services
 Virginia Department of Agriculture and Consumer Services

G Biotech Seven
 United Network for Organ Sharing

TENANTS.



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**Virginia BioTechnology Research Park Authority
Richmond, Virginia**

**Report on the Audit for the Year Ended
June 30, 2003**

October 15, 2003

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Biotechnology Research Park Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited 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 then ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Biotechnology Research Park Authority as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued our report dated October 15, 2003, 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Authority has not presented the management discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements referred to above. Other information in this annual report is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Authority. This other information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on this other information.

AUDITOR OF PUBLIC ACCOUNTS

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF NET ASSETS
For the Year Ended June 30, 2003

ASSETS

Current assets:	
Cash and cash equivalents (Note 2)	\$ 721,300
Cash with trustee (Note 2)	1,244,473
Accounts receivable (Note 3)	364,231
Prepaid expenses	3,291
Capital lease receivable - Biotech Two and Six (Note 5)	7,114,094
Unamortized bond issue cost	<u>79,602</u>
Total current assets	<u>9,526,991</u>

Noncurrent assets:

Cash with trustee (Note 2)	1,341,852
Capital lease receivable - Biotech Two and Six (Note 5)	120,845,018
Unamortized interest expense - Biotech Two	2,431,800
Unamortized bond issue costs	1,170,648
Nondepreciable property, plant, and equipment	3,982,918
Depreciable property, plant, and equipment, net (Note 4)	<u>20,094,380</u>

Total noncurrent assets 149,866,616

Total assets \$159,393,607

LIABILITIES

Current liabilities:

Accounts payable	102,486
Accounts payable - DCLS expenses	1,244,473
Accounts payable - EDA (note 11)	73,478
Retainage payable	813,890
Customer deposits	47,841
Deferred rental income	42,298
Long-term debt - current portion (Note 7)	3,817,459
Unearned income - Biotech Two and Six - current portion (Note 5)	<u>4,074,094</u>

Total current liabilities 10,216,019

Noncurrent liabilities:

Long-term debt (Note 7)	95,481,739
Accrued EDA liability (Note 11)	274,491
Unearned income - Biotech Two and Six (Note 5)	<u>41,344,460</u>

Total noncurrent liabilities 137,100,690

Total liabilities 147,316,709

NET ASSETS

Invested in capital assets, net of related debt	5,130,182
Unrestricted	<u>6,946,716</u>

Total net assets \$ 12,076,898

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2003

Operating revenues:

Rental income	\$ 2,788,809
Parking income	113,479
Maintenance contract support	8,500
University support (Note 9)	171,368
Interest income	16,548
Reimbursement of prior year build out expense	250,296
Miscellaneous	<u>82,936</u>
Total operating revenues	<u>3,431,936</u>

Operating expenses:

Salaries and benefits	650,296
Marketing and promotion	97,907
Occupancy costs	726,774
Administrative	133,240
Amortization expense	171,378
Depreciation expense	1,108,305
Other expense	<u>14,175</u>

Total operating expenses 2,902,075

Income from operations 529,861

Nonoperating revenues (expenses):

Developer's fees	100,013
Reimbursement from University for land purchase	106,438
Interest revenue	4,485,984
Interest expense	(5,105,403)
Grant revenue (Note 10)	30,000
Grant expense (Note 10)	<u>(60,293)</u>

Total nonoperating revenues (expenses) (443,261)

Special item - EDA Expense (Note 11) (366,283)

Decrease in net assets (279,683)

Total net assets - beginning 12,356,581

Total net assets - ending \$ 12,076,898

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

*The financial statements for the Virginia Biotechnology Research Park do not include
financial statements for the Virginia Biotechnology Development Center.*

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2003

Cash flows from operating activities:	
Cash received from tenants	\$ 2,651,568
Cash received for parking	113,479
Cash received for interest income	16,548
University support	171,368
Other revenues	341,732
Payments for employees	(650,296)
Payment for marketing expenses	(97,907)
Payment for administrative expenses	(133,240)
Payment for occupancy expenses	(851,420)
Other expenses	(14,175)
	1,547,657
Net cash provided by operating activities	1,547,657

Cash flows from noncapital financing activities:	
Payments made on behalf of VBDC	(20,067)
Grant expense	(60,293)
	(80,360)
Net cash used by noncapital financing activities	(80,360)

Cash flows from capital and related financing activities:	
Payments for EDA settlement	(18,314)
Expenses paid on behalf of DCLS	(43,522)
Collections from City of Richmond - parking deck project	99,611
Proceeds from developer's fees	75,013
Proceeds from the issuance of notes payable	600,000
Payment for Biotech Six expenses	(32,529,460)
Principal received from capital lease payments	2,910,000
Interest received from capital lease payments	4,209,259
Principal paid on lease related bonds	(2,910,000)
Interest paid on lease related bonds	(4,209,259)
Interest received on funds held in trust	276,724
Principal paid on non lease related debt	(725,802)
Interest paid on non lease related debt	(896,142)
Cash payments to University Health System	(11,688)
Reimbursement from University for land purchase	106,438
Acquisition of fixed assets	(1,185,182)
	(34,252,324)
Net cash provided by capital and related activities	(34,252,324)

Net decrease in cash and cash equivalents	(32,785,027)
Cash and cash equivalents at July 1, 2002	36,092,652
Cash and cash equivalents at June 30, 2003	\$ 3,307,625

Reconciliation of operating income to net cash provided by operating activities:	
Operating Income	\$ 529,861

Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,108,305
Amortization expense	171,378
Decrease in accounts payable	(121,355)
Increase in accounts receivable	(158,955)
Increase in customer deposits	21,034
Increase in deferred rental income	680
Increase in prepaid expenses	(3,291)
	1,547,657
Net cash provided by operating activities	\$ 1,547,657

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Authority, which began operations effective July 1, 1993, provides a mechanism for financing construction of the biotechnology research park through bond issuances. The Virginia Biotechnology Research Park Corporation is an IRS Code Section 501(c)(3) corporation and is organized and operated exclusively for scientific, educational, and charitable purposes. For financial statement presentation, the Corporation is reflected as a blended component unit of the Authority. Corporation revenues and expenses each totaled \$171,368 for the year ended June 30, 2003.

Per a Memorandum of Understanding between the Authority and Virginia Commonwealth University Real Estate and Foundation Services Department (Foundation), the Foundation provides accounting guidance, support, and oversight of the Authority's financial statements and transactions.

The Authority is responsible for operating, managing, and maintaining the Virginia Biotechnology 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 Virginia Biotechnology Research Park Authority (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 non-capitalized leases with lease terms of one-year or less; 2) contributions of the Commonwealth of Virginia, Virginia Commonwealth University or other contributed income directly supporting the operations or advancement of the Virginia Biotechnology Research Park; 3) revenue derived from ownership and management of parking surface lots within the footprint of the Virginia Biotechnology 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 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 fees earned on bond issuances. Additionally, grant revenue received through a grant from the Virginia Department of Business Assistance Services is considered as non-operating revenue as it is earmarked for the establishment of the Virginia Biosciences Development Center.

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 30 years.

2. CASH AND CASH EQUIVALENTS

The Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, 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. Cash with the trustee represents bond proceeds held by trustees.

3. ACCOUNTS RECEIVABLE

The following table details accounts receivable at June 30, 2003:

	Receivable Balance
Rent receivable	\$ 228,932
Due from Whiting-Turner	13,365
Due from DCLS	64,064
Due from VBDC	50,067
Miscellaneous receivables	7,803
	<hr/>
Total	<u>\$ 364,231</u>

The City of Richmond (City) has contracted to build a three-level parking structure within the Biotech Six structure under a condominium agreement. The \$2.9 million City Parking Deck Project is being fully funded and operated by the City. The amount due from the City is for parking structure construction costs incurred by the Authority at June 30, 2003, that the City has not yet reimbursed. The amount due from the Department of General Services' Division of Consolidated Laboratories Services (DCLS) is for costs related to the Biotech Six Project.

4. PROPERTY, PLANT, AND EQUIPMENT

	Beginning Balance as of July 1, 2002	Acquired (Increased)	Deleted (Decreased)	Ending Balance as of June 30, 2003
Land	\$ 2,914,177	\$ 1,068,741	\$ --	\$ 3,982,918
Buildings	24,397,521	--	--	24,397,521
Equipment	270,029	2,715	--	272,744
Leasehold improvements	1,349,880	113,726	--	1,463,606
Construction in progress	29,066,821	30,156,437	59,223,258	--
	<hr/>	<hr/>	<hr/>	<hr/>
Total at historical cost	57,998,428	30,341,619	59,223,258	30,116,789
	<hr/>	<hr/>	<hr/>	<hr/>
Less accumulated depreciation for:				
Buildings	4,269,041	836,149	--	5,105,190
Equipment	43,468	4,195	--	47,663
Leasehold improvements	618,676	267,962	--	886,638
	<hr/>	<hr/>	<hr/>	<hr/>
Capital assets, net	<u>\$ 53,067,243</u>	<u>\$ 30,233,313</u>	<u>\$ 59,223,258</u>	<u>\$ 24,077,298</u>

The Authority's construction in progress represented expenses for architectural fees, planning, and construction costs associated with the project known as Biotech Six, and was reclassified as a capital lease upon occupancy in June 2003. The Department of General Services' Division of Consolidated Laboratories Services occupies the building. The leasehold improvement amount represents the build-out cost of expanded space for tenants in the Biotech One building. Equipment represents the installation and purchase of a HVAC system in the Biotech One building.

5. LEASES RECEIVABLE

The Authority has a capital lease agreement with the Department of General Services (DGS) for the Biotech Two building. The capital lease has a value of \$38,387,227 at June 30, 2003, which equals the remaining principal and interest due on the debt for the Biotech Two building. The financial statements include unearned income of \$12,197,226 related to the capital lease receivable for interest due in future periods.

On September 6, 2000, DGS transferred the lease rights and obligation to the Department of Criminal Justice Services (DCJS). Lease payments will continue through 2018 when title to the Biotech Two building will transfer to DCJS.

The Authority also has a capital lease agreement with DGS for the Biotech Six building. The capital lease has a value of \$89,571,885 at June 30, 2003, which equals the remaining principal and interest due on the debt for the Biotech Six building. The financial statements include unearned income of \$33,221,328 related to the capital lease receivable for interest due in future periods.

The Authority also has an operating lease with Ondeo Degremont, Inc. on the Biotech Five building which expires on October 31, 2013. Future lease payments total \$3,206,845.

6. CONDUIT DEBT OBLIGATIONS

On April 9, 2002, the Authority issued \$12,000,000 in Series 2002 Variable Rate Revenue Bonds to fund construction of the Biotech Seven Project. Biotech Seven is an office 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.

7. LONG-TERM DEBT

Long-term debt of the Authority consists of the following bonds and notes payable at June 30, 2003:

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.	\$ 11,785,000
4.00 percent to 5.30 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Biotech Two Project), Series 1996.	26,190,000
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.	2,480,000
4.00 percent to 5.00 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia Lease Revenue Bonds, (Consolidated Laboratories Project), Series 2001.	58,145,000
7.00 percent deed of trust note payable dated February 15, 2002 due February 15, 2005 for the purchase of the properties at 310 - 318 East Leigh Street.	125,000
LIBOR + 3 percent deed of trust note payable dated July 18, 2002 with a minimum principal payment requirement due on October 1, 2005. Rate then changes to LIBOR + 2 percent with a final payment due on October 1, 2008. Note was obtained for the purchase of property at North 5th and Jackson Streets.	<u>574,198</u>
Total long-term debt	<u>\$ 99,299,198</u>

Long-term debt matures as follows:

Fiscal Year	Principal	Interest	Total
2004	\$ 3,817,459	\$ 4,939,703	\$ 8,757,162
2005	4,139,339	4,748,688	8,888,027
2006	4,226,314	4,540,259	8,766,573
2007	4,448,387	4,324,943	8,773,330
2008	4,665,565	4,111,833	8,777,398
2009-2013	27,807,134	16,748,901	44,556,035
2014-2018	30,860,000	8,756,939	39,616,939
2019-2022	<u>19,335,000</u>	<u>1,831,044</u>	<u>21,166,044</u>
Totals	<u>\$ 99,299,198</u>	<u>\$ 50,002,310</u>	<u>\$ 149,301,508</u>

	Beginning Balance	Additions	Reductions	Balance	One Year
Bonds payable:					
Commonwealth of Virginia Lease Revenue Bonds	\$ 102,210,000	\$ --	\$ 3,610,000	\$ 98,600,000	\$ 3,817,459
Notes payable:					
Deed of Trust	125,000	600,000	25,802	699,198	--
Total	\$ 102,335,000	\$ 600,000	\$ 3,635,802	\$ 99,299,198	\$ 3,817,459

8. RETIREMENT

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

9. FINANCIAL SUPPORT

The Authority received \$171,368 from Virginia Commonwealth University (VCU) during fiscal year 2003. VCU made contributions of \$110,021 (unrestricted), \$19,168 (restricted for marketing and salaries), \$42,179 (adjunct faculty contributions).

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

10. RELATED PARTY TRANSACTIONS

During fiscal year 2002, the Authority established the Virginia Biosciences Development Center (Center). The Center is a private, not-for-profit corporation, organized under 501(c)(3) of the Internal Revenue Code that provides office space and administrative support to start-up biotechnology companies. In fiscal year 2003, the Authority obtained a grant of \$30,000 from the Virginia Department of Business Assistance Services to support the establishment of the Center. The Authority was required to provide a match of \$30,000 under the terms of the grant. Expenses incurred by the Authority related to the operations of the Center during fiscal year 2003 totaled \$60,293.

11. RESULTS OF CONTINGENT LIABILITY

The Authority was involved in a dispute brought by the Economic Development Administration related to grant funds received for construction costs. After receiving an appeal from the Authority, the Economic Development Administration imposed a fee of \$366,283 in settlement of the issue and agreed to a 5-year repayment schedule. During fiscal year 2003, the Authority made a payment of \$18,314 on this liability.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK BOARDS OF DIRECTORS

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