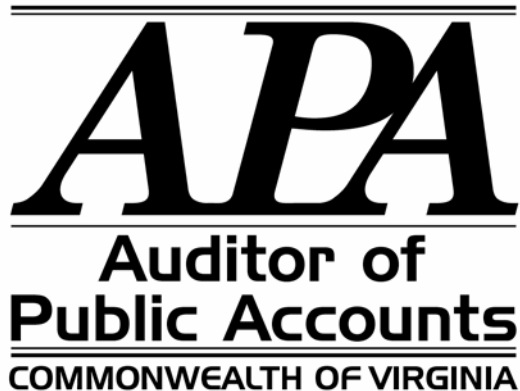


**VIRGINIA BIOTECHNOLOGY
RESEARCH PARK AUTHORITY
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of the Virginia Biotechnology Research Park Authority for the year ended June 30, 2004, found:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;
- no internal control matters that we consider material weaknesses; and
- no instances of noncompliance or other matters required to be reported.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(unaudited)

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

Summary of Organization and Business

The Authority is a political subdivision of the Commonwealth of Virginia, established in 1993 by an act of the Virginia General Assembly. The Authority provides a mechanism for financing construction of the Virginia BioTechnology Research Park (Research Park) through bond issuances and other approved mechanisms. The Virginia BioTechnology Research Park Corporation (Corporation) is an IRS Code Section 501(c)(3) corporation and is organized and operated exclusively for scientific, educational, and charitable purposes. The results of operations of the Corporation are presented in blended format in the financial statements of the Authority. Corporation revenues and expenses each totaled \$116,756 for fiscal year 2004.

The Board and staff of the Authority manage daily operations of the Research Park. The Research Park is a life sciences community affiliated with Virginia Commonwealth University (VCU) that houses private and non-profit companies, research institutes, and government laboratories on a 34-acre campus in downtown Richmond, Virginia. The mission of the Authority is to advance life sciences by attracting, promoting, and commercializing scientific research; thereby, creating investment and jobs.

The Authority does not have taxing power. Operations are funded from lease and ancillary service revenues. The acquisition and construction of capital assets are funded by bond issuances, long-term notes payable, and appropriations from the Commonwealth of Virginia and contract support payments from VCU. The Research Park as of June 30, 2004 was occupied by 38 private and non-profit companies, four state laboratories, and five research institutes/administrative functions of VCU, filling more than 535,000 square feet of laboratory and office space in eight buildings and employing more than 1,200 individuals.

HIGHLIGHTS

Financial Highlights for fiscal year 2004

- Cash decreased nearly \$1.5 million as a result of capital and related financing activities for the Biotech Six project
- Net assets of the Authority increased by \$1,056,895
- Operating revenues decreased by \$134,851
- Operating expenses increased by \$343,519

Authority Highlights

- Long-term debt for the East Leigh Street property was paid off
- Land increased with a \$1.4 million purchases of the 8th Street parking lots and \$237,000 from the 4th Street property reclassification
- Biotech One and Center, the Research Park's two multi-tenant buildings, had 32 tenant companies and were 95 percent occupied at June 30, 2004

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements. The MD&A represents management's examination and analysis of the financial condition and performance of the Authority. The financial statements of the Authority are presented using the accrual method of accounting.

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

The Statement of Net Assets presents the financial position of the Authority on an accrual basis, including information about the type and amount of resources and obligations at June 30, 2004. The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of the Authority's operating and non-operating activities and provides information as to changes to the net assets. The Statement of Cash Flows presents changes in cash and cash equivalents as a result of operational and financing activities. The Authority currently has no investing activities and as such, this section is not presented.

The Notes to Financial Statements provide required disclosures and other pertinent information necessary to provide a reader of the financial statements a complete understanding of the data being presented. The notes are comprised of information about the Authority's accounting policies, significant account balances, obligations, commitments, contingencies, and subsequent events.

CONDENSED FINANCIAL INFORMATION

Statement of Net Assets

The following schedule reflects the condensed Statement of Net Assets compared to the prior year.

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Current and other assets	\$125,942,796	\$135,316,309	\$ (9,373,513)
Capital assets, Net	<u>24,471,907</u>	<u>24,077,298</u>	<u>394,609</u>
 Total assets	 <u>150,414,703</u>	 <u>159,393,607</u>	 <u>(8,978,904)</u>
 Current and other liabilities	 46,066,550	 51,958,380	 (5,891,830)
Long-term debt	<u>91,337,770</u>	<u>95,481,739</u>	<u>(4,143,969)</u>
 Total liabilities	 <u>137,404,320</u>	 <u>147,440,119</u>	 <u>(10,035,799)</u>
 Net assets	 <u>\$ 13,010,383</u>	 <u>\$ 11,953,488</u>	 <u>\$ 1,056,895</u>

Authority net assets increased by \$1,056,895. Long-term assets and other assets increased mainly as a result of the completion of the Biotech Six project and establishment of the capital lease as it relates to Biotech Six.

For more detailed information, see the accompanying Statement of Net Assets.

Statement of Revenues, Expenses, and Changes in Net Assets

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

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Operating revenues:			
Rent and parking income	\$ 3,093,606	\$ 2,854,992	\$ 238,614
University support	116,756	171,368	(54,612)
Miscellaneous	<u>39,427</u>	<u>358,280</u>	<u>(318,853)</u>
Total operating revenues	<u>3,249,789</u>	<u>3,384,640</u>	<u>(134,851)</u>
Operating expenses:			
Salaries and benefits	780,307	661,639	118,668
Marketing and promotion	77,463	97,907	(20,444)
Occupancy costs	725,074	726,774	(1,700)
Administrative	141,985	133,240	8,745
UNOS master lease	120,000	-	120,000
Public safety	37,386	-	37,386
Amortization expense	199,274	171,378	27,896
Depreciation expense	1,133,833	1,108,305	25,528
Other	<u>41,615</u>	<u>14,175</u>	<u>27,440</u>
Total operating expenses	<u>3,256,937</u>	<u>2,913,418</u>	<u>343,519</u>
Operating income (loss)	(7,148)	471,222	(478,370)
Nonoperating revenues (expenses):			
Interest revenue	4,074,094	4,485,984	(411,890)
Interest expense	(4,933,200)	(5,105,403)	172,203
Developer's fees	72,681	100,013	(27,332)
Grant revenue	-	30,000	(30,000)
Grant expense	(52,666)	(60,293)	7,627
Reimbursement for land purchases	1,893,561	41,667	1,851,894
Income from trust	<u>9,573</u>	<u>-</u>	<u>9,573</u>
Total nonoperating activity	<u>1,064,043</u>	<u>(508,032)</u>	<u>1,572,075</u>
Special item: EDA expense	<u>-</u>	<u>(366,283)</u>	<u>366,283</u>
Change in net assets	1,056,895	(403,093)	1,459,988
Net assets - beginning of year	<u>11,953,488</u>	<u>12,356,581</u>	<u>(403,093)</u>
Net assets - end of year	<u>\$13,010,383</u>	<u>\$11,953,488</u>	<u>\$1,056,895</u>

Total operating revenues decreased by \$134,851 over the previous fiscal year. Miscellaneous revenues decreased by funds received in fiscal year 2003 for a tenant build-out. The current year amount is consistent with the normal average. VCU support decreased by \$54,000 in accordance with the Authority's plan for a reduction in VCU operating support. VCU continued to support the Authority through unoccupied space support in accordance with VCU's master lease on Biotech One.

Operating expenses increased by \$343,519 due to increased maintenance, utility, and depreciation costs, as well as an increase in benefit and salary costs. Administrative expenses increased \$8,000 to reflect computer network upgrades. All other categories showed a decrease in activity for the year.

CAPITAL ASSETS AND LONG-TERM DEBT

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

The Authority issued \$12 million of bonds in April 2002 as a conduit to finance construction of the new national headquarters of the United Network for Organ Sharing (UNOS). Designated as Biotech Seven, the new UNOS headquarters building is an 80,000 square-foot facility, which UNOS owns and occupies. The Authority is master leasing up to 12,000 square feet of space from UNOS for subleasing to other Research Park companies. Construction commenced in September 2001 and was completed in December 2002.

<u>Buildings</u>	<u>Number of Occupants</u>	<u>Occupied (sq. ft)</u>	<u>Date Acquired/ Constructed</u>
Biotech Center	47	10,285	1995
Biotech One	306	93,413	1996
Biotech Two	206	102,124	1998
Biotech Three ^(A)	106	31,124	1996
Biotech Four ^(A)	46	12,448	1996
Biotech Five	13	13,435	1999
Biotech Six	250	191,000	2003
Biotech Seven	250	80,000	2002
Public Safety Building ^(B)	<u>5</u>	<u>1,532</u>	1999
Total	<u>1,229</u>	<u>535,361</u>	

(A) Property owned by VCU Real Estate Foundation

(B) Space leased from City of Richmond

SIGNIFICANT EVENTS

On April 17, 2002, the Virginia General Assembly enacted legislation to provide \$2 million of funding through VCU for the expressed purpose of land acquisition for the Research Park. The Authority began to acquire additional properties, furthering the expansion of the Research Park, during fiscal year 2004. These funds are expected to be spent in their entirety by the fall of 2004.

ADDITIONAL INFORMATION

The Authority has completed construction on eight buildings and is leasing space in one other facility. When fully developed, the Research Park will contain 1.5 to 1.9 million square feet of research, office, and laboratory space in 15-18 buildings and employ 3,000 scientists, researchers, engineers, and technicians working in fields that include drug development, medical diagnostics and devices, biomedical engineering, environmental biosciences, forensics, and laboratory services.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2004

ASSETS	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 512,777
Cash with trustee (Note 3)	945,842
Cash with LGIP (Note 3)	348,510
Accounts receivable (Note 4)	290,303
Prepaid expenses	6,569
Capital lease receivable - Biotech Two and Six (Note 6)	7,111,526
Unamortized bond issue cost	79,602
Unamortized interest expense	<u>119,672</u>
Total current assets	<u>9,414,801</u>
Noncurrent assets	
Capital lease receivable - Biotech Two and Six (Note 6)	113,733,492
Unamortized interest expense	1,703,457
Unamortized bond issue cost	1,091,046
Nondepreciable capital assets (Note 5)	5,753,007
Depreciable capital assets, Net of accumulated depreciation (Note 5)	<u>18,718,900</u>
Total noncurrent assets	<u>140,999,902</u>
Total assets	<u>150,414,703</u>
LIABILITIES	
Current liabilities:	
Accounts payable	76,341
Retainage payable - Biotech Six	179,700
Customer deposits	47,718
Deferred income	60,891
Benefits payable	20,000
Long-term debt - current portion (Note 8)	4,014,867
Unearned revenue - Biotech Two and Six - current portion (Note 6)	3,931,526
Accrued EDA liability - current portion (Note 9)	73,478
Compensated absences	<u>11,343</u>
Total current liabilities	<u>8,415,864</u>
Noncurrent liabilities:	
Long-term debt (Note 8)	91,337,770
Accrued EDA liabilities (Note 9)	237,752
Unearned revenue - Biotech Two and Six (Note 5)	<u>37,412,934</u>
Total noncurrent liabilities	<u>128,988,456</u>
Total liabilities	<u>137,404,320</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,193,902
Restricted for land purchases	415,130
Unrestricted	<u>7,401,351</u>
Total net assets	<u>\$ 13,010,383</u>

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

VIRGINIA BIOTECHNOLOGY RESEARCH PARK
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended June 30, 2004

Operating revenues:	
Rental income	\$2,823,863
Parking income	269,743
University and other support (Note 11)	116,756
Other income	39,427
	<u>3,249,789</u>
Total operating revenues	
	<u>3,249,789</u>
Operating expenses:	
Salaries and benefits	780,307
Marketing and promotion	77,463
Occupancy costs	725,074
Administrative	141,985
UNOS master lease	120,000
Public Safety Building - City of Richmond	37,386
Amortization expense	199,274
Depreciation expense	1,133,833
Other expenses	41,615
	<u>3,256,937</u>
Total operating expenses	
	<u>3,256,937</u>
Operating loss	<u>(7,148)</u>
Nonoperating revenue (expenses):	
DCLS additional rent - bond servicing fee	72,681
Grant expense/in kind VBDC expense (Note 12)	(52,666)
VPBA reimbursements for land purchases	1,893,561
Interest revenue	4,074,094
Interest expense	(4,933,200)
Income from funds in trust	9,573
	<u>1,064,043</u>
Total nonoperating revenue (expenses)	
	<u>1,064,043</u>
Change in net assets	1,056,895
Net assets - beginning, as restated (Note 2)	<u>11,953,488</u>
Net assets - ending	<u>\$13,010,383</u>

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

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004

Cash flows from operating activities:

Cash received from rent	\$ 2,810,724
Cash received from parking	269,743
Cash received from University and other support	116,756
Cash received from miscellaneous income	39,427
Payments for personnel expenses	(760,307)
Payments for marketing expenses	(77,463)
Payments for occupancy expenses	(764,545)
Payments for administrative expenses	(141,985)
Payments for other expenses	(188,953)

Net cash provided by operating activities 1,303,397

Cash flows from noncapital financing activities:

Payments made on behalf of VBDC	<u>(58,489)</u>
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Cash flows from capital and related financing activities:

Payments for EDA settlement	(36,739)
Expenses paid on behalf of DCLS	(1,244,471)
Amounts received from DCLS	64,064
Proceeds from developer's fees	72,680
Unamortized interest	488,999
Payments for Biotech Eight project	(110,932)
Payments for Biotech Six project	(634,190)
Income received from funds held in trust	9,573
Principal received from capital lease payments	3,040,000
Interest received from capital lease payments	4,074,094
Principal paid on lease-related bonds	(3,040,000)
Interest paid on lease-related bonds	(4,074,094)
Principal paid on nonlease-related debt	(906,561)
Interest paid on nonlease-related debt	(859,106)
Reimbursement received from VCU for land purchase	1,893,561
Acquisition of capital assets	(1,482,282)

Net cash provided by capital and related activities (2,745,404)

Net decrease in cash and cash equivalents (1,500,496)

Cash and cash equivalents at July 1, 2003 3,307,625

Cash and cash equivalents at June 30, 2004 \$ 1,807,129

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	\$ (7,148)
Adjustments:	
Depreciation expense	1,133,833
Amortization expense	199,274
Decrease in operating accounts receivable	15,687
Increase in prepaid expenses	(3,277)
Decrease in accounts payable	(6,146)
Decrease in customer deposits	(123)
Decrease in deferred income	<u>(28,703)</u>
Net cash provided by operating activities	<u>\$ 1,303,397</u>

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

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Biotechnology Research Park Authority (Authority), which began operations effective July 1, 1993, provides a mechanism for financing construction of the biotechnology research park through bond issuances and other allowable mechanisms. The Virginia Biotechnology Research Park Corporation (Corporation) is an IRS Code Section 501(c)(3) corporation and is organized and operated exclusively for scientific, educational, and charitable purposes. For financial statement presentation, the Corporation is reflected as a blended component unit of the Authority. Corporation revenues and expenses each totaled \$116,756 for the year ended June 30, 2004.

The Authority is responsible for operating, managing, and maintaining the Virginia Biotechnology Research Park properties, including maintaining grounds and oversight of subcontractors.

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

B. Basis of Accounting

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

The Authority defines operating revenues as revenue derived from the primary business activities of the Authority. These activities include the following: 1) lease revenues related to noncapitalized leases with lease terms of one-year or less; 2) contributions of the Commonwealth of Virginia, Virginia Commonwealth University (VCU) or other contributed income directly supporting the operations or advancement of the Research Park; 3) revenue derived from ownership and management of parking lots within the footprint of the Research Park; and 4) other miscellaneous revenue sources such as vending machine commissions, event fees for conference facilities, tenant fax and copying fees, and expenditure reimbursements that are not related to a specific capital outlay project.

The Authority defines nonoperating revenues as revenue derived from capital lease agreements and capital financing activities such as interest income on funds held in trust accounts, developer's fees, and issuers fees earned on bond issuances. Additionally, grant revenue received through a grant from the Virginia Department of Business Assistance Services is considered as nonoperating revenue as it is earmarked for the ongoing programs of the Virginia Biosciences Development Center.

C. Asset Capitalization and Depreciation Method

Capital assets are recorded at cost at the time of acquisition. Capital assets with a value in excess of \$2,500 and a useful life of at least two years are capitalized. Donated capital assets are carried at market value at the date of contribution. Capital assets are reported net of accumulated depreciation 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. NET ASSETS RESTATED

During the audit, it was determined that each year, the Research Park receives a portion of the rental revenue in advance for subsequent periods. An adjustment was made to reclassify the prepaid amount and defer the revenue to the appropriate period. Also, an adjustment was made to decrease leasehold improvements because a portion of the amount capitalized was reimbursed by the tenant. In addition, a liability for compensated absences had not been previously reported on the Statement of Net Assets. The Research Park included this liability beginning in fiscal year 2004, so beginning net assets was adjusted to account for the liability that should have been accrued in prior years. These adjustments have the following cumulative effect on the Research Park's net assets:

Net assets as reported at June 30, 2003	\$12,076,898
Rental revenue reclassified as deferred revenue	(47,296)
Reimbursed expense previously capitalized as leasehold improvement	(64,771)
Compensated absences liability not previously recorded	<u>(11,343)</u>
Net asset balance at July 1, 2003 as restated	<u>\$11,953,488</u>

3. CASH AND CASH EQUIVALENTS

The Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, 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 and which is not categorized as to custodial risk. Cash with the trustee represents bond proceeds held by trustees.

4. ACCOUNTS RECEIVABLE

The following table details accounts receivable at June 30, 2004:

	<u>Receivable Balance</u>
Rent receivable	\$221,324
Due from Virginia Biosciences Development Center	55,890
Miscellaneous receivables	<u>13,089</u>
Total	<u>\$290,303</u>

5. PROPERTY, PLANT, AND EQUIPMENT

	Beginning Balance as of <u>July 1, 2003</u>	Acquired/ <u>(Increased)</u>	Deleted/ <u>(Decreased)</u>	Ending Balance as of <u>June 30, 2004</u>
Land	\$ 3,982,918	\$1,659,157	\$ -	\$ 5,642,075
Buildings	24,397,521	-	289,950	24,107,571
Equipment	272,744	37,058	-	309,802
Leasehold improvements	1,398,834	22,896	-	1,421,730
Construction-in-progress	<u>-</u>	<u>110,932</u>	<u>-</u>	<u>110,932</u>
Total at historical cost	<u>30,052,017</u>	<u>1,830,043</u>	<u>289,950</u>	<u>31,592,110</u>
Less accumulated depreciation:				
Buildings	5,105,190	836,149	53,121	5,888,218
Equipment	47,663	18,787	-	66,450
Leasehold improvements	<u>886,638</u>	<u>278,897</u>	<u>-</u>	<u>1,165,535</u>
Capital assets, net	<u>\$24,012,526</u>	<u>\$ 696,210</u>	<u>\$236,829</u>	<u>\$24,471,907</u>

The Authority's construction-in-progress represents expenses for architectural fees and planning costs associated with the project known as Biotech Eight. The leasehold improvement amount represents renovation costs for the Biotech One building. Equipment represents repairs to the HVAC system for the Biotech One and Biotech Center buildings. The land costs are associated with the purchase of the 8th Street lots and the preparation for the purchase of the Wizer lots.

6. LEASES RECEIVABLE

The Authority has a capital lease agreement with the Department of General Services (DGS) for the Biotech Two building. The capital lease had a value of \$35,958,190 at June 30, 2004, which equals the remaining principal and interest due on the debt for the Biotech Two building. The financial statements include unearned income of \$10,858,188 related to the capital lease receivable for interest due in future periods.

On September 6, 2000, DGS transferred the lease rights and obligations 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 had a value of \$84,886,828 at June 30, 2004, which equals the remaining principal and interest due on the debt for the Biotech Six building. The financial statements include unearned income of \$30,486,272 related to the capital lease receivable for interest due in future periods.

The Authority also has an operating lease with Infilco Degremont, Inc., on the Biotech Five building which expires on October 31, 2013. Future principal lease payments total \$2,930,980.

7. CONDUIT DEBT OBLIGATIONS

On April 9, 2002, the Authority issued \$12 million in Series 2002 variable rate revenue bonds to fund construction of the Biotech Seven Project. Biotech Seven is an office facility built specifically for lease to the United Network for Organ Sharing (UNOS). The bonds are secured by a letter of credit and are payable solely from the lease payments made by the borrower under the loan agreement. Upon repayment of the bonds, ownership of the facility transfers to UNOS. The bonds do not constitute a debt or pledge of the faith and credit of the Authority or the Commonwealth and accordingly have not been reported in the accompanying financial statements.

8. LONG-TERM DEBT

Long-term debt of the Authority consists of the following bonds and notes payable at June 30, 2004:

5.33 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.	\$11,155,000
4.00 to 5.30 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia lease revenue bonds, (Biotech Two Project), Series 1996.	25,100,000
5.25 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.	2,370,000
4.00 to 5.00 percent Virginia Biotechnology Research Park Authority Commonwealth of Virginia lease revenue bonds, (Consolidated Laboratories Project), Series 2001.	56,195,000
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. The note was obtained for the purchase of property at North 5 th and Jackson Streets.	<u>532,637</u>
Total long-term debt	<u>\$95,352,637</u>

Long-term debt matures as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 4,014,867	\$ 4,742,327	\$ 8,757,194
2006	4,677,770	4,524,654	9,202,424
2007	4,405,000	4,303,530	8,708,530
2008	4,620,000	4,092,598	8,712,598
2009	4,845,000	3,870,820	8,715,820
2010-2014	29,075,000	15,300,783	44,375,783
2015-2019	30,490,000	7,144,997	37,634,997
2020-2024	<u>13,225,000</u>	<u>1,014,375</u>	<u>14,239,375</u>
Total	<u>\$95,352,637</u>	<u>\$44,994,084</u>	<u>\$140,346,721</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable:					
Commonwealth of Virginia lease revenue bonds	\$98,600,000	\$ -	\$3,780,000	\$94,820,000	\$3,975,000
Notes payable:					
Deed of trust	<u>699,198</u>	<u>-</u>	<u>166,561</u>	<u>532,637</u>	<u>39,867</u>
Total	<u>\$99,299,198</u>	<u>\$ -</u>	<u>\$3,946,561</u>	<u>\$95,352,637</u>	<u>\$4,014,867</u>

9. ACCRUED EDA LIABILITY

The Authority was involved in a dispute brought by the Economic Development Administration (EDA) related to grant funds received for construction costs. After receiving an appeal from the Authority, the EDA imposed a fee of \$366,283 in settlement of the issue and agreed to a five-year repayment schedule. As of June 30, 2004, \$311,230 remains outstanding.

10. 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 made to these plans.

11. FINANCIAL SUPPORT

The Authority received \$116,756 from VCU during fiscal year 2004. VCU made contributions of \$73,347 (unrestricted) and \$43,409 (adjunct faculty contributions).

The Authority has entered into a lease agreement with VCU for Biotech One. 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 \$2.2 million annually for the remainder of the lease term.

12. 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. Expenses incurred by the Authority related to the operations of the Center during fiscal year 2004 totaled \$52,666.

13. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Authority participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care plan is administered by the Department of Human Resource Management. The risk management insurance plans and worker's compensation plans are administered by a private insurance agency. Risk management insurance includes property and general liability plans and faithful performance of duty bond. The Authority pays premiums directly to the vendor for insurance coverage. Information relating to the Commonwealth's employee health care plan is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

November 19, 2004

The Honorable Mark R. Warner
Governor of Virginia

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

Board of Directors
Virginia Biotechnology Research Park Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Virginia Biotechnology Research Park Authority, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages one through five is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In planning and performing our audit of the financial statements of the Authority as of and for the year ended June 30, 2004, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grant agreements 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on December 6, 2004.

AUDITOR OF PUBLIC ACCOUNTS

MSM/kva

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
Richmond, Virginia

Eugene P. Trani
Chairman

Lawrence H. Framme III
Abhishek Jain
Rudolph C. McCollum, Jr.
G. Gilmer Minor III

Gerald M. Rubin
Michael J. Schewel
James E. Sheffield
Ronald D. Wright

VIRGINIA BIOTECHNOLOGY RESEARCH PARK CORPORATION
Richmond, Virginia

Eugene P. Trani
Chairman

Phyllis L. Cothran
Donna J. Edmonds
Charles H. Foster, Jr.
Paula S. Gulak
Robert L. Hamburger
Virgil R. Hazelett
Frank L. Hurley

Calvin D. Jamison
G. Gilmer Minor III
John R. Nelson
Lane B. Ramsey
Frank S. Royal
Michael J. Schewel
Robert T. Skunda