Financial Statements

Science and Technology Campus Corporation

Years ended June 30, 2002 and 2001 with Report of Independent Auditors

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Directors
Science and Technology Campus Corporation
1381 Kinnear Road, Suite 218
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We have reviewed the Independent Auditor's Report of the Science and Technology Campus Corporation, Franklin County, prepared by Ernst & Young LLP, for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Science and Technology Campus Corporation is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

December 23, 2002

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Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Financial Statements

Years ended June 30, 2002 and 2001

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Report of Independent Auditors

Board of Directors
Science and Technology
Campus Corporation
(An Ohio Not-for-Profit Corporation)

We have audited the accompanying statements of financial position of the Science and Technology Campus Corporation (an Ohio not-for-profit corporation) (the Corporation) as of June 30, 2002 and 2001, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits provide 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 Science and Technology Campus Corporation (an Ohio not-for-profit corporation) as of June 30, 2002 and 2001, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have issued our report dated November 7, 2002 on our consideration of the Corporation's internal control over financial reporting and 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 when considering the results of our audit.

Ernst & Young LLP

November 7, 2002

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Statements of Financial Position

	June 30	
	2002	**2001**
Assets		
Cash and cash equivalents	**$ 1,787,652**	$ 1,997,857
Assets limited as to use (Note 2)	**358,835**	-
Receivable from The Ohio State University	**162,414**	1,531,530
Rent receivable (Note 3)	**195,200**	149,910
Investments in start-up companies	**497,090**	-
Prepaid expenses	**30,050**	60,746
Property and equipment, at cost:		
Leasehold estate	**12,370,000**	12,370,000
Capitalized development costs	**13,121,409**	9,272,592
Equipment	**137,630**	73,941
	25,629,039	21,716,533
Less accumulated amortization and depreciation	**(1,414,353)**	(961,676)
Net property and equipment	**24,214,686**	20,754,857
Other assets	**188,099**	78,151
Total assets	**$ 27,434,026**	$ 24,573,051
Liabilities and net assets		
Accounts payable	**$ 76,379**	$ 2,279,248
Accrued liabilities	**230,818**	77,052
Accrued interest	**395,213**	368,532
Notes payable and long term debt (Notes 3 and 5)	**12,100,000**	7,000,000
Fair value of interest rate swap (Note 6)	**146,299**	-
Leasehold obligation	**3,831,242**	4,242,242
Net assets - unrestricted	**10,654,075**	10,605,977
Total liabilities and net assets	**$ 27,434,026**	$ 24,573,051

See accompanying notes.

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Statements of Activities

	Year ended June 30 2002	2001
Revenues:		
Rental income (Note 3)	**$ 2,276,027**	$ 1,790,435
Cash contributions	**635,000**	701,437
Interest income	**64,972**	167,279
Grants	**580,420**	-
Other income	**19,199**	-
Total revenues	**3,575,618**	2,659,151
Expenses:		
Rental operating expenses:		
Leasehold interest expense	**448,079**	260,701
Utilities	**439,330**	278,543
Repairs and maintenance	**251,891**	59,419
Rent concessions	**51,046**	78,970
Management fees	**81,927**	80,196
Other rental operating expenses	**127,763**	64,423
Total rental operating expenses	**1,400,036**	822,252
General and administrative expenses:		
Salaries and related expenses	**992,817**	840,639
Amortization of leasehold interest in property	**309,996**	310,000
Amortization of capitalized development costs	**116,628**	-
Consulting	**24,035**	58,882
Legal	**45,405**	23,257
Insurance	**50,561**	45,294
Accounting	**39,501**	23,117
Marketing and advertising	**104,734**	113,363
Telecommunications	**19,934**	24,325
Travel, meals and meetings	**46,413**	30,424
Impairment of investments in start-up companies (Note 2)	**90,000**	-
Change in fair value of interest rate swap (Note 6)	**146,299**	-
Other	**141,161**	75,271
Total general and administrative expenses	**2,127,484**	1,544,572
Total expenses	**3,527,520**	2,366,824
Excess of revenues over expenses	**$ 48,098**	$ 292,327

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Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Statements of Activities (continued)

	Year ended June 30	
	2002	2001
Excess of revenues over expenses	**$ 48,098**	$ 292,327
Net assets - unrestricted at beginning of year	**10,605,977**	10,313,650
Net assets - unrestricted at end of year	**$ 10,654,075**	$ 10,605,977

See accompanying notes.

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Statements of Cash Flows

	Year ended June 30	
	2002	**2001**
Operating activities		
Change in net assets - unrestricted	**$ 48,098**	$ 292,327
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization and depreciation	**452,685**	328,933
Valuation allowance on investments in start-up companies (Note 2)	**90,000**	-
Change in fair value of interest rate swap (Note 6)	**146,299**	-
Change in operating assets and liabilities:		
Rent receivable	**(45,290)**	3,615
Receivable from The Ohio State University	**1,369,116**	(1,531,530)
Prepaid expenses	**30,696**	(51,309)
Other assets	**(109,948)**	(78,151)
Accounts payable	**(2,202,869)**	1,903,568
Accrued liabilities and interest	**16,070**	334,675
Net cash (used in) provided by operating activities	**(205,143)**	1,202,128
Investing activities		
Increase in assets limited as to use	**(358,835)**	-
Increase in investments in start-up companies	**(587,090)**	-
Additions to property and equipment	**(63,689)**	(18,907)
Increase in capitalized development costs	**(3,684,448)**	(5,793,394)
Net cash used in investing activities	**(4,694,062)**	(5,812,301)
Financing activities		
Principle reduction in leasehold obligation	**(411,000)**	(390,654)
Proceeds from note payable	**5,100,000**	4,315,024
Net cash provided by financing activities	**4,689,000**	3,924,370
Net decrease in cash and cash equivalents	**(210,205)**	(685,803)
Cash and cash equivalents at beginning of year	**1,997,857**	2,683,660
Cash and cash equivalents at end of year	**$ 1,787,652**	$ 1,997,857
Cash paid for interest	**$ 551,584**	$ -

See accompanying notes.

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Notes to Financial Statements

Years ended June 30, 2002 and 2001

1. Organization and Presentation

The Science and Technology Campus Corporation (an Ohio Not-for-Profit Corporation), (the "Corporation"), was formed on March 1, 1996 to further develop the Science and Technology Campus at The Ohio State University (the University).

The Corporation's sources of funding include rental income and contributions received under agreements with the University, the State of Ohio Department of Development and the City of Columbus Department of Trade and Development. The Corporation is constructing facilities on leased properties for the purpose of developing the Science and Technology Campus.

The Corporation reports cash contributions as unrestricted support unless explicit donor stipulations specify how the donated cash must be used. Where stipulations have been made and they have been satisfied in the same reporting period then the contribution is reported as unrestricted.

2. Summary of Significant Accounting Policies

Rental Income

Rents are recognized in the period earned. Any prepaid rents are deferred to the period benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

The Corporation considers temporary investments purchased with an initial maturity of three months or less to be cash equivalents for the statements of financial position and for purposes of preparing the statements of cash flows.

Assets Limited as to Use

The Corporation considers assets that have been designated by contract or internally designated for a specific purpose to be limited as to use and are recorded at market value. As of June 30, 2002, assets limited as to use consisted of the following:

Project Fund	$ 218,360
Money Market Fund	140,475
Total balance	$ 358,835

The Project Fund (the Fund) was created as part of the Trust Indenture Agreement (the Agreement) between the Corporation and Fifth Third Bank to hold the proceeds of the Adjustable Rate Taxable Securities, Series 2001, (the Project Notes) issued during the year. According to the Agreement, amounts in the Fund can only be used to reimburse the Corporation for valid construction expenses relating to the construction of the Science Village facility located at 1381 Kinnear Road. As of June 30, 2002, $4,881,640 of the proceeds had been used for their intended purpose. The balance in the Fund as of June 30, 2002 was $218,360 and represents the remaining proceeds of the $5.1 million note that are available to reimburse future construction expenses (See Note 5).

The Corporation also maintains a money market account that will be drawn upon to make the principle payments on the Adjustable Rate Taxable Securities, Series 2001 on the first day of November of each year (See Note 5). The Corporation deposits funds into this account on a monthly basis to ensure that the required principle payment amount is available on the due date. The money market fund earns interest at a variable rate. As of June 30, 2002, the balance in the money market account was $140,475.

2. Summary of Significant Accounting Policies (continued)

Investments in Start-up Companies

The Corporation invests in closely held, start-up companies and other ventures. These investments are typically in the form of convertible promissory notes and are accounted for at cost, which approximates fair value. The Corporation reviews its investments for impairment at least annually. The Corporation believes that a portion of its investments is impaired and accordingly has recorded an impairment charge of $90,000 to write the investments balance down. Due to the start-up nature of the companies that the Corporation invests in, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Leasehold Estate

Leasehold estate is recorded at its estimated fair market value at acquisition and amortized using the straight-line method based on the assets' estimated useful life of forty years. Amortization expense amounted to $309,996 and $310,000 for 2002 and 2001, respectively.

Capitalized Development Costs

Capitalized development costs consist of survey, architectural, construction, and interest related to building construction. Upon completion of construction, costs are amortized over the remaining useful life of the related property. As of June 30, 2002 and 2001, the total capitalized development costs amounted to $13,121,409 and $9,272,592, respectively. For the year ended June 30, 2002, the total amortization of the capitalized development costs amounted to $116,628.

Equipment

Equipment is recorded at cost and depreciated using the straight-line method based on the assets' estimated useful life of three to five years. For the years ended June 30, 2002 and 2001, depreciation expense amounted to $27,278 and $18,933, respectively.

2. Summary of Significant Accounting Policies (continued)

Grants

The Corporation receives grants from various City of Columbus and State of Ohio funding sources. Funds received from these grants are used to invest in start-up companies (See "Investments" above) and for operating expenses. These funds are only available on a reimbursement basis and the restrictions must be satisfied prior to applying for funding. The Corporation also receives matching contributions from various corporate or individual sponsors. These contributions have no donor-imposed restrictions attached.

3. Related Party Transactions

Rental Income

The Corporation subleases certain property to affiliates of the University. For the years ended June 30, 2002 and 2001, rental income from affiliates amounted to $1,400,191 and $1,530,499, respectively. The University provides management services for properties leased by the Corporation from the University. Rent collections and expense disbursements related to leased properties are accounted for by the University and net rents are submitted to the Corporation on a quarterly basis. As of June 30, 2002 and 2001, affiliate rent receivables amounted to $160,565 and 39,974, respectively. The following is a schedule by year of minimum future gross rental income on non-cancelable operating leases as of June 30, 2002:

Year Ending June 30:	
2003	$ 1,487,872
2004	1,497,577
2005	1,507,586
2006	1,517,952
2007	1,508,256
Thereafter	4,073,129
Total minimum future rentals	$ 11,592,372

3. Related Party Transactions (continued)

Operating Support

The Corporation received $300,000 in operating support from the University during the fiscal years ended June 30, 2002 and 2001. These funds, while reflected as cash contributions, have no specific restrictions attached and are used for normal operating expenses. These funds are provided to the Corporation pursuant to the Development Agreement finalized during the year ended June 30, 1998, which specifies that the University will continue to support the Corporation with these funds on an annual basis. The term of the operating support provided by the Development Agreement has been extended through the fiscal year ended June 30, 2003.

Joint Use Agreement

The Corporation entered a Joint Use Agreement with the University whereby the University has utilized an appropriation of $4 million from a State of Ohio Capital Funding Allocation to fund the construction and development of certain properties under lease by the Corporation. The terms of the agreement include a provision for the State of Ohio to recapture a portion of funding over a fifteen year period in an event of default. The Corporation has assessed the possibility of default as remote and accordingly the accompanying financial statements do not include any accrued liabilities related to this contingency. There were no related party contributions in fiscal years 2002 or 2001 representing University funding from the joint use agreement.

Leasehold Obligations

Leasehold agreements require the Corporation to pay all costs of leased properties including operating costs, maintenance, renovation, and assessments. Leasehold obligations are due to the University and require aggregate monthly payments of $54,016 with maturity dates ranging from December, 2007 to October, 2010. Interest rates are fixed at rates ranging from 5.6% to 6.3%.

3. Related Party Transactions (continued)

Leasehold Obligations (continued)

Future minimum lease payments for the next five fiscal years and thereafter are as follows:

2003	$ 648,192
2004	648,192
2005	648,192
2006	648,192
2007	648,192
Thereafter	1,511,697
Total minimum lease payments	4,752,657
Less amounts representing interest	(921,419)
Present value of leasehold obligation	3,831,243
Portion of leasehold obligation due within 12 months	(410,999)
Leasehold obligation, less amounts due within 12 months	$3,420,243

Notes Payable

The University has authorized up to $21 million in construction financing for development at the Science and Technology Campus provided certain criteria are met. The University authorized $14 million of the authorized financing on June 7, 2002. As of June 30, 2002 and 2001, the Corporation had drawn $7,000,000 of this financing agreement.

Interest is calculated on a variable basis based on the actual interest rate received by the University's Series B Commercial Paper. The interest rate as of June 30, 2002 and 2001 was approximately 4% and 5.3%, respectively. For the year ended June 30, 2002, the Corporation paid $103,505 of the accrued interest in cash. None of the accrued interest was paid in cash during fiscal year 2001. For the years ended June 30, 2002 and 2001, the Corporation incurred interest costs of $321,282 ($197,153 of which were capitalized) and $297,000 (all of which were capitalized), respectively. Outstanding debt and accrued interest are payable to the University on the maturity date of January 2024. As of June 30, 2002, none of the principle on the notes had been repaid.

3. Related Party Transactions (continued)

Pass-Through Funding

The Corporation acts as a pass-through entity from time to time. The Corporation has an agreement with the University to manage construction of various projects. The agreement provides $9 million in pass through funding for construction costs. In accordance with the agreement, the Corporation does not recognize any revenue or capitalize construction costs related to this project. As of June 30, 2002 and 2001, the Corporation had a receivable of $162,414 and $1,531,530 from the University related to construction expenditures for these projects that had not yet been reimbursed.

Management Fees

The University manages certain properties for the Corporation. The management fees charged to the Corporation by the University are calculated at the rate of 4.5% of monthly gross rents. For the years ended June 30, 2002 and 2001, the Corporation incurred management fees of $81,927 and $80,196, respectively.

4. Defined Contribution Retirement Plan

The Corporation sponsors a defined contribution retirement plan under the guidelines of section 401(a) of the Internal Revenue Code. Contributions to the plan are based on a rate of 7.25% of compensation, plus 5.7% of compensation in excess of the Social Security Wage Base subject to Internal Revenue Code compensation limits. For the years ended June 30, 2002 and 2001, the Corporation incurred retirement expense of $60,073 and $51,351, respectively. Full time employees are immediately eligible and 100% vested.

5. Long-term Debt

In October 2001, the Corporation issued $5.1 million in Adjustable Rate Taxable Securities, Series 2001, (the Project Notes). The proceeds of the Project Notes have been used to finance capitalized development costs, with the exception of the balance remaining in the Project Fund (See Note 2). The Project Notes have a variable interest rate. The interest rate was 2.00% as of June 30, 2002.

5. Long-term Debt (continued)

The owners of the Project Notes have the option to demand redemption of their outstanding Notes at dates defined in the agreement. The Corporation has entered into a remarketing agreement, which requires the remarketing agent to utilize its best efforts to remarket any such bonds that may be tendered for payment. If the proceeds to the remarketing agent are not sufficient to purchase the Notes tendered, the Trustee is required to draw on an irrevocable letter of credit to pay the necessary purchase price. The letter of credit expires November 15, 2006.

For the year ended June 30, 2002, the Corporation incurred interest costs relating to this note of $103,670 (none of which were capitalized). As of June 30, 2002, the Corporation had not yet made its first principle payment on the note, which is due November 1, 2002. However, the Corporation has designated funds in a money market account for the repayment of principle in the amount of $140,475 (See Note 2). Principle payments for the next five fiscal years and thereafter are as follows:

2003	$ 210,000
2004	215,000
2005	220,000
2006	225,000
2007	230,000
Thereafter	4,000,000
Total principle payments	$ 5,100,000

6. Interest Rate Swap Agreement

In December 2001, the Corporation entered into an interest rate swap agreement with a bank as a hedge against the interest rate risk associated with borrowing at a variable rate. The Corporation's objective is to eliminate the variability of cash flows in the interest rate payments for $3.0 million of its variable rate debt. The swap agreement has a notional amount of $3.0 million and effectively locked a portion of the Corporation's variable rate note at fixed rates of 4.30% for the period from February 1, 2002 to December 1, 2003, 5.85% for the period from December 1, 2003 to December 1, 2005, and 6.90% for the period from December 1, 2005 to December 20, 2006. The swap agreement is in effect for a period of five years ending in December 2006. The Corporation does not use derivative financial instruments for speculative purposes.

6. Interest Rate Swap Agreement (continued)

As of June 30, 2002, the fair value of the swap agreement, based on current settlement prices, was a liability of $146,299. In accordance with the provisions of Statement of Financial Accounting Standards No. 133, the change in the fair value of the interest rate swap agreement has been recorded as an expense on the statement of activities.

7. Federal Income Taxes

The Internal Revenue Service has ruled that the Corporation is a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for federal income taxes has been reflected in the financial statements.

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements in Accordance With *Government Auditing Standards*

Board of Directors
Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

We have audited the financial statements of Science and Technology Campus Corporation (an Ohio Not-for-Profit Corporation) (the Corporation) as of and for the year ended June 30, 2002, and have issued our report thereon dated November 7, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the Board of Directors, management and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

November 7, 2002

STATE OF OHIO
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SCIENCE AND TECHNOLOGY CAMPUS CORPORATION

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 9, 2003