Financial Statements

Science and Technology Campus Corporation

Years ended June 30, 2004 and 2003 with Report of Independent Auditors

Auditor of State
Betty Montgomery

Board of Directors
Science and Technology Campus Corporation
1381 Kinnear Road, Suite 218
Columbus, Ohio 43212

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, 2003 through June 30, 2004. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 15, 2004

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

Financial Statements

Years ended June 30, 2004 and 2003

Contents

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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, 2004 and 2003, 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, 2004 and 2003, 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 October 11, 2004 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

October 11, 2004

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

Statements of Financial Position

	June 30	
	2004	**2003**
Assets		
Cash and cash equivalents	**$ 708,403**	$ 659,890
Short term investments	**204,600**	200,000
Assets limited as to use *(Note 2)*	**128,056**	140,475
Receivable from The State of Ohio *(Note 2)*	**-**	251,401
Accounts receivable (less allowance for doubtful accounts of $21,247 and $39,516, respectively)	**77,343**	133,486
Investments in start-up companies (less allowance for impairment of $75,000)	**1,029,739**	746,738
Prepaid expenses	**3,446**	28,073
Property and equipment, at cost:		
Leasehold estate *(Note 2)*	**12,370,000**	12,370,000
Buildings	**14,880,338**	14,447,676
Equipment	**231,253**	239,395
Construction in process	**4,162,479**	261,100
	31,644,070	27,318,171
Less accumulated amortization and depreciation	**(2,921,628)**	(2,150,894)
Net property and equipment	**28,722,442**	25,167,277
Other assets	**269,274**	151,919
Total assets	**$ 31,143,303**	$ 27,479,259
Liabilities and net assets		
Accounts payable	**$ 428,670**	$ 202,573
Accrued liabilities	**161,752**	291,990
Accrued interest	**113,258**	12,604
Notes payable and long-term debt *(Notes 3 and 5)*	**17,784,361**	13,071,851
Fair value of interest rate swap *(Note 6)*	**194,795**	349,436
Leasehold obligation *(Note 3)*	**2,933,337**	3,394,846
Net assets - unrestricted	**9,527,130**	10,155,959
Total liabilities and net assets	**$ 31,143,303**	$ 27,479,259

See accompanying notes.

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

Statements of Activities

	Year ended June 30	
	2004	**2003**
Revenues:		
Rental income *(Note 3)*	**$ 2,735,024**	$ 2,728,933
Contributions	**397,446**	641,401
Interest income	**7,588**	21,861
Grants	**296,511**	447,540
Other income	**7,400**	29,453
Total revenues	**3,443,969**	3,869,188
Expenses:		
Rental operating expenses:		
Interest expense	**782,676**	427,036
Utilities	**488,876**	583,505
Repairs and maintenance	**294,535**	143,039
Depreciation	**470,135**	426,539
Amortization of leasehold interest in property	**309,996**	309,996
Management fees *(Note 3)*	**105,901**	113,116
Other	**230,760**	158,522
Total rental operating expenses	**2,682,879**	2,161,753
General and administrative expenses:		
Salaries and related expenses	**1,005,420**	1,251,896
Consulting	**85,419**	89,768
Legal	**37,172**	38,004
Insurance	**44,515**	40,672
Accounting	**58,943**	50,901
Marketing and advertising	**16,932**	11,975
Project development costs	**18,701**	58,467
Telecommunications	**30,091**	32,161
Travel, meals and meetings	**60,826**	71,643
Bad debt expense	**38,172**	59,516
Impairment of investments in start-up companies *(Note 2)*	**-**	113,511
Change in fair value of interest rate swap *(Note 6)*	**(154,641)**	203,137
Other	**148,369**	183,900
Total general and administrative expenses	**1,389,919**	2,205,551
Total expenses	**4,072,798**	4,367,304
Excess of expenses over revenues	**(628,829)**	(498,116)
Net assets - unrestricted at beginning of year	**10,155,959**	10,654,075
Net assets - unrestricted at end of year	**$ 9,527,130**	$ 10,155,959

See accompanying notes.

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

Statements of Cash Flows

	Year ended June 30	
	2004	**2003**
Operating activities		
Change in net assets - unrestricted	**$ (628,829)**	$ (498,116)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization and depreciation	**780,131**	736,541
Impairment charge on investments in start-up companies (Note 2)	**-**	113,511
Change in fair value of interest rate swap (Note 6)	**(154,641)**	203,137
Change in operating assets and liabilities:		
Short term investments	**(4,600)**	(200,000)
Accounts receivable	**56,143**	61,714
Receivable from The State of Ohio	**251,401**	(251,401)
Receivable from The Ohio State University	**-**	162,404
Prepaid expenses	**24,627**	1,977
Other assets	**(117,355)**	36,190
Accounts payable	**226,097**	126,194
Accrued liabilities and interest	**(29,584)**	(329,443)
Net cash provided by operating activities	**403,390**	162,708
Investing activities		
Decrease in assets limited as to use	**12,419**	218,360
Increase in investments in start-up companies	**(283,001)**	(363,159)
Increase in construction in process	**(3,901,379)**	(261,100)
Additions to property and equipment	**(1,255)**	(101,765)
Additions to buildings	**(432,662)**	(1,326,267)
Net cash used in investing activities	**(4,605,878)**	(1,833,931)
Financing activities		
Principle reduction in leasehold obligation	**(461,509)**	(436,396)
Principle reduction in notes payable and long term debt	**(354,765)**	(280,532)
Proceeds from notes payable and long term debt	**5,067,275**	1,260,389
Net cash provided by financing activities	**4,251,001**	543,461
Net increase (decrease) in cash and cash equivalents	**48,513**	(1,127,762)
Cash and cash equivalents at beginning of year	**659,890**	1,787,652
Cash and cash equivalents at end of year	**$ 708,403**	$ 659,890
Interest paid	**$ 774,128**	$ 860,282

See accompanying notes.

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

Notes to Financial Statements

Years ended June 30, 2004 and 2003

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 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.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

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.

Short-term Investments

The Corporation considers temporary investments purchased with an initial maturity of four to twelve months to be short-term investments for the statements of financial position and for purposes of preparing the statements of cash flows. As of June 30, 2004, the balance consisted of money market funds. As of June 30, 2003, the balance consisted of certificates of deposit.

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. Assets limited as to use consisted of $128,056 and $140,475 as of June 30, 2004 and 2003, respectively. The Corporation maintains these funds in a money market account that will be drawn upon to make the principal 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 so that the required principal payment amount is available on the due date. The money market fund earns interest at a variable rate.

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. 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. The activity in the reserve for impairment account was as follows:

	Year ended June 30	
	2004	**2003**
Beginning balance	**$ 75,000**	$ 90,000
Provision for impairment	**-**	113,511
Write-offs	**-**	(128,511)
Ending balance	**$ 75,000**	$ 75,000

Leasehold Estate

Leasehold estate is recorded at its estimated fair market value at original acquisition and amortized using the straight-line method based on the assets' estimated useful life of forty years.

Buildings and Equipment

Upon completion of construction, building costs are depreciated over the remaining estimated useful life of the related property of 36 years.

Equipment is recorded at cost and depreciated using the straight-line method based on the assets' estimated useful life of three to five years.

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.

3. Related Party Transactions

Rental Income

The Corporation subleases certain property to affiliates of the University. For the years ended June 30, 2004 and 2003, rental income from affiliates amounted to $1,803,418 and $1,424,411, respectively. For the nine months ended March 31, 2003, the University provided management services for properties leased by the Corporation from the University. Rent collections and expense disbursements related to leased properties were accounted for by the University and net rents were submitted to the Corporation on a quarterly basis. In April 2003, the Corporation hired an independent party to provide property management services. As of June 30, 2004 and 2003, affiliate rent receivables amounted to $300. The following is a schedule by year of minimum future gross rental income on non-cancelable operating leases as of June 30, 2004:

Year Ending June 30:	
2005	$ 1,553,536
2006	1,538,776
2007	1,404,810
2008	1,380,728
2009	1,309,430
Thereafter	3,205,011
Total minimum future rentals	$ 10,392,291

3. Related Party Transactions (continued)

Operating Support

The Corporation received $300,000 in operating support from the University during each of the fiscal years ended June 30, 2004 and 2003. 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 an agreement (the Development Agreement), 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, 2005.

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 or other activity in fiscal years 2004 or 2003 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 a rate of 5.61%

3. Related Party Transactions (continued)

Leasehold Obligations (continued)

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

2005	$ 648,193
2006	648,193
2007	648,193
2008	530,355
2009	419,153
Thereafter	558,870
Total minimum lease payments	3,452,957
Less amounts representing interest	519,620
Present value of leasehold obligation	$ 2,933,337

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. As of June 30, 2004 and 2003, the Corporation had drawn $13,327,664 and $8,260,389, respectively, of the available funds.

The Corporation signed a reimbursement agreement with the University on November 1, 2002 relating to $7 million of the payable balance. Under the terms of the agreement, interest accrues from November 1, 2002 and is calculated on a variable basis based on the actual interest rate on 25-year municipal securities. The interest rate as of June 30, 2004 and 2003 was approximately 5.4%. For the year ended June 30, 2004 and 2003, $370,315 and $219,446, respectively, of interest was paid in cash. None of the interest on this obligation was capitalized during the years ended June 30, 2004 and 2003. The interest expense for the year ended June 30, 2003 was partially offset by a $194,000 reduction of interest accrued in 2003, which was previously estimated on an interim basis prior to November 1, 2002). Outstanding debt and accrued interest are payable to the University on a monthly basis through the maturity date of January 2024. As of June 30, 2004 and 2003, the outstanding balance on the notes was $6,780,948 and $6,921,462, respectively.

3. Related Party Transactions (continued)

Notes Payable (continued)

As of June 30, 2004 and 2003, the Corporation had drawn an additional $6,328,413 and $1,260,389, respectively, of the total available funds for which it has not entered into a reimbursement agreement with the University. For the year ended June 30, 2004, the Corporation accrued interest on the borrowings, at a rate of 2.26% at the direction of the University, totaling $113,258 ($46,451 of which was capitalized). For the year ended June 30, 2003, the Corporation accrued interest on the borrowings, at an imputed rate of 4%, totaling $12,604 (none of which was capitalized). None of the principal amount of these borrowings had been repaid as of June 30, 2004.

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, 2004 and 2003, all construction expenditures related to these projects had been reimbursed by the University.

Management Fees

The University managed certain properties for the Corporation. The management fees charged to the Corporation by the University were calculated at the rate of 4.5% of monthly gross rents. For the nine months ended March 31, 2003, the Corporation incurred management fees of $89,483. The Corporation utilizes a non-affiliated property management company subsequent to March 31, 2003.

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. Full time employees are immediately eligible and 100% vested. For the years ended June 30, 2004 and 2003, the Corporation incurred retirement expense of $82,722 and $76,910, respectively.

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 construction costs. The Project Notes have a variable interest rate. The interest rate was 1.32% and 1.15% as of June 30, 2004 and 2003, respectively.

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 Project 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, 2004 and 2003, the Corporation incurred interest costs relating to this note of $217,129 and $255,452, respectively. None of the interest on this obligation was capitalized during the years ended June 30, 2004 and 2003. As of June 30, 2004 and 2003, the Corporation had repaid $425,000 and $210,000 of the principal due on the note. In addition, the Corporation had designated funds in a money market account for the repayment of principal in the amount of $128,056 and $140,475 as of June 30, 2004 and 2003, respectively (See Note 2). Principal payments for the next five fiscal years and thereafter are as follows:

2005	$ 220,000
2006	225,000
2007	230,000
2008	240,000
2009	245,000
Thereafter	3,515,000
Total principal payments	$ 4,675,000

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 interest payments for a portion of its variable rate debt. The swap agreement has a notional amount of $2,750,100 and $2,876,520 as of June 30, 2004 and 2003, respectively, 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.

As of June 30, 2004 and 2003, the fair value of the swap agreement, based on current settlement prices, was a liability of $194,795 and $349,436, respectively. 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 recognized in 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, 2004, and have issued our report thereon dated October 11, 2004. 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.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Science & Technology Campus Corporation'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*.

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

October 11, 2004

Auditor of State
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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
NOVEMBER 30, 2004