

Financial Statements

Science and Technology Campus Corporation

Years ended June 30, 2001 and 2000 with Report of Independent Auditors



STATE OF OHIO
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Board of Directors
Science and Technology Campus Corporation

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, 2000 through June 30, 2001. 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

January 14, 2002

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

Financial Statements

Years ended June 30, 2001 and 2000

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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, 2001 and 2000, 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. In addition, we conducted our audit of the financial statements as of and for the year ended June 30, 2001 in accordance with 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, 2001 and 2000, 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 August 31, 2001 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.

August 31, 2001,
except for Note 6, as to which
the date is October 9, 2001

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

Statements of Financial Position

	June 30	
	2001	2000
Assets		
Cash and cash equivalents	\$ 1,997,857	\$ 1,110,171
Restricted cash	-	1,573,489
Receivable from The Ohio State University	1,531,530	-
Rent receivable	149,910	153,525
Prepaid expenses	60,746	9,437
Property and equipment, at cost:		
Leasehold estate	12,370,000	12,370,000
Capitalized development costs	9,272,592	3,479,198
Equipment	73,941	55,034
	<u>21,716,533</u>	<u>15,904,232</u>
Less accumulated amortization and depreciation	(961,676)	(632,742)
Net property and equipment	<u>20,754,857</u>	<u>15,271,490</u>
Other assets	<u>78,151</u>	-
Total assets	<u><u>\$ 24,573,051</u></u>	<u><u>\$ 18,118,112</u></u>

See accompanying notes.

	June 30	
	2001	2000
Liabilities and net assets		
Accounts payable	\$ 2,279,248	\$ 375,681
Accrued liabilities	77,052	38,953
Accrued interest	368,532	71,956
Notes payable	7,000,000	2,684,976
Leasehold obligation	4,242,242	4,632,896
Net assets - unrestricted	10,605,977	10,313,650
Total liabilities and net assets	\$ 24,573,051	\$ 18,118,112

See accompanying notes.

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

Statements of Activities

	Year ended June 30	
	2001	2000
Revenues:		
Rental income	\$ 1,790,435	\$ 1,911,712
Cash contributions	701,437	575,000
Interest income	167,279	63,779
Total revenues	2,659,151	2,550,491
Expenses:		
Rental operating expenses:		
Leasehold interest expense	260,701	272,304
Utilities	278,543	293,265
Repairs and maintenance	59,419	190,447
Rent concessions	78,970	22,734
Management fees	80,196	86,200
Other rental operating expenses	64,423	13,346
Total rental operating expenses	822,252	878,296
General and administrative expenses:		
Salaries and related expenses	840,639	505,208
Amortization of leasehold interest in property	310,000	309,250
Consulting	58,882	83,252
Legal	23,257	37,249
Insurance	45,294	41,341
Accounting	23,117	29,783
Interest	-	56,977
Project expenses	-	55,834
Marketing and advertising	113,363	46,261
Telecommunications	24,325	21,996
Travel, meals and meetings	30,424	18,983
Other	75,271	42,908
Total general and administrative expenses	1,544,572	1,249,042
Total expenses	2,366,824	2,127,338
Excess of revenues over expenses	\$ 292,327	\$ 423,153

See accompanying notes.

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

Statements of Activities (continued)

	Year ended June 30	
	2001	2000
Excess of revenues over expenses	\$ 292,327	\$ 423,153
Joint use agreement contribution (<i>Note 3</i>)	-	1,970,015
Increase in unrestricted net assets	292,327	2,393,168
Net assets - unrestricted at beginning of year	10,313,650	7,920,482
Net assets - unrestricted at end of year	<u>\$ 10,605,977</u>	<u>\$ 10,313,650</u>

See accompanying notes.

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

Statements of Cash Flows

	Year ended June 30	
	2000	2000
Operating activities		
Increase in net assets - unrestricted	\$ 292,327	\$ 2,393,168
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization and depreciation	328,933	319,532
Change in operating assets and liabilities:		
Rent receivable	3,615	46,849
Receivable from The Ohio State University	(1,531,530)	-
Prepaid expenses	(51,309)	12,767
Accounts payable	1,903,568	283,024
Accrued liabilities and interest	334,675	61,430
Net cash provided by operating activities	1,280,279	3,116,770
Investing activities		
Increase in other assets	(78,151)	-
Additions to property and equipment	(18,907)	(13,664)
Increase in capitalized development costs	(5,793,394)	(2,684,768)
Net cash used in investing activities	(5,890,452)	(2,698,432)
Financing activities		
Principle reduction in leasehold obligation	(390,654)	(375,888)
Proceeds from note payable	4,315,024	1,887,914
Net cash provided by financing activities	3,924,370	1,512,026
Net (decrease) increase in cash and cash equivalents	(685,803)	1,930,364
Cash and cash equivalents at beginning of year	2,683,660	753,296
Cash and cash equivalents at end of year	\$ 1,997,857	\$ 2,683,660

See accompanying notes.

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

Notes to Financial Statements

Years ended June 30, 2001 and 2000

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.

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

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

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

Restricted Cash

Restricted cash represents funds withdrawn from the University construction financing agreement that were not expended as of June 30, 2000. The restriction was lifted in 2001 upon the occurrence of construction related expenditures.

Property

Leasehold estate is recorded at the estimated fair market value and amortized using the straight-line method based on the assets' estimated useful life of forty years. Amortization expense amounted to \$310,000 and \$309,250 for 2001 and 2000, respectively.

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, 2001 and 2000, depreciation expense amounted to \$18,933 and \$10,282 , respectively.

Capitalized Development Costs

Capitalized development costs consist of survey, architectural, construction, and interest related to building construction. Upon completion of construction, costs will be classified as leasehold improvements and amortized accordingly. As of June 30, 2001 and 2000, the total capitalized development costs amounted to \$9,272,592 and \$3,479,198, respectively.

Science and Technology Campus Corporation
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Notes to Financial Statements (continued)

3. Related Party Transactions

Lease Income

The Corporation subleases certain property to affiliates of the University. For the years ended June 30, 2001 and 2000, rental income from affiliates amounted to \$1,530,499 and \$1,233,424, 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, 2001 and 2000, affiliate rent receivables amounted to \$39,974 and \$153,525, respectively. The following is a schedule by year of minimum future gross rental income on non-cancelable operating leases as of June 30, 2001:

Year Ending June 30:

2002	\$ 870,434
2003	879,783
2004	889,488
2005	899,497
2006	909,863
Later years	4,473,196
Total minimum future rentals	<u>\$8,922,261</u>

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.

Related party contributions in fiscal year 2000 include University funding from joint use and operating support agreements in the amount of \$1,970,015.

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

Notes to Financial Statements (continued)

3. Related Party Transactions (continued)

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 and have maturity dates ranging from December, 2007 to October, 2010. Interest rates are fixed at rates ranging from 5.6% to 6.3%. Future minimum lease payments for the next five fiscal years and thereafter are as follows:

2002	\$ 648,192
2003	648,192
2004	648,192
2005	648,192
2006	648,192
Thereafter	2,159,889
Total minimum lease payments	<u>5,400,849</u>
Less amounts representing interest	(1,158,607)
Present value of leasehold obligation	<u>4,242,242</u>
Portion of leasehold obligation due within 12 months	<u>(410,999)</u>
Leasehold obligation, less amounts due within 12 months	<u><u>\$ 3,831,243</u></u>

Notes Payable

The University has authorized \$7 million in construction financing for development at the Science and Technology Campus provided certain criteria are met. As of June 30, 2001 and 2000, the Corporation has drawn \$7,000,000 and \$2,684,976, respectively, of this financing agreement.

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

Notes to Financial Statements (continued)

3. Related Party Transactions (continued)

Notes Payable (continued)

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, 2001 and 2000 was approximately 5.3% and 3.7%, respectively. None of the accrued interest was paid in cash. For the years ended June 30, 2001 and 2000, the Corporation incurred interest costs of \$297,000 (all of which were capitalized) and \$56,977, respectively. Outstanding debt and accrued interest are payable to the University on the maturity date of January 2024.

Pass-Through Funding

The Corporation acts as a pass-through entity from time to time. In 2001, the Corporation has an agreement with the University to manage construction of the Micro MD Laboratory project. 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, 2001, the Corporation has a receivable of \$1.5 million from the University related to construction expenditures for the Micro MD Laboratory project that have 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, 2001 and 2000, the Corporation incurred management fees of \$80,196 and \$86,200, 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, 2001 and 2000, the Corporation incurred retirement expense of \$51,351 and \$33,402, respectively. Full time employees are immediately eligible and 100% vested.

Science and Technology Campus Corporation
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Notes to Financial Statements (continued)

5. 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.

6. Subsequent Event

In October 2001, the corporation closed on \$5.1 million of variable rate debt for the financing of construction projects.



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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, 2001, and have issued our report thereon dated August 31, 2001. 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

August 31, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

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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
FEBRUARY 5, 2002**